Annual Report

American Stores Company 1994 Annual Report

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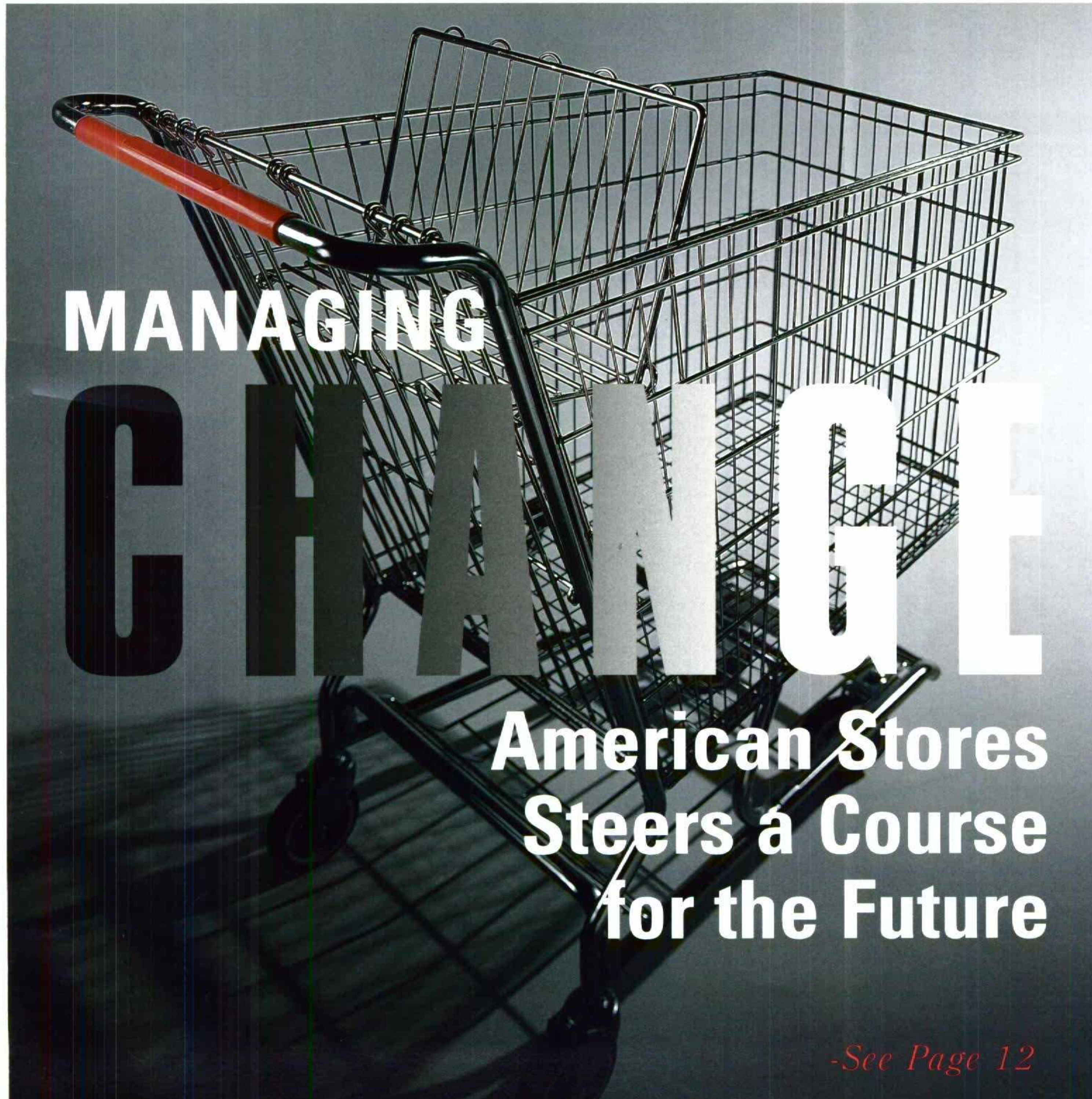

MANAGING CHANGE

American Stores Steers a Course for the Future

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Annual Report

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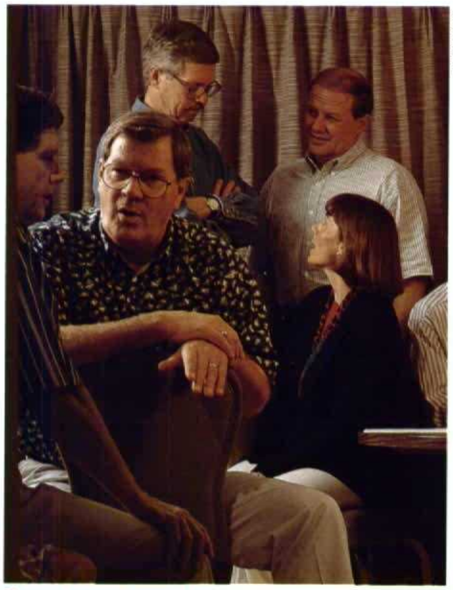

JOHN HARDING

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ALEN MACWEENY

COVER PHOTO: JEFF BURKE

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Board of Directors

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[1] Executive Committee
[2] Audit Committee
[3] Compensation and Stock Option Committee
[4] Alternate Member of Executive Committee

Letter to Shareholders

Eating an Elephant...One Bite at a Time

Recently, I attended a time management seminar. Skeptical at first, I was drawn in by the principles espoused by the instructor. Time management, he said, really involves breaking huge chores – the kind you never want to do – into manageable "bite size" pieces. "Kind of like eating an elephant one bite at a time," he joked.

His culinary comparison struck me as appropriate not only for time management, but also for how American Stores Company is tackling its enormous transition from a decentralized holding company into an integrated operating company.

It's fair to say we had tried our hand at change before. Since the late 1970s, we had attempted to devour a centralization strategy in a single bite. Blown away by the enormity of the task, especially the cultural challenges, we retreated. Our retreat could always be justified by continuing good sales and earnings.

Now, nearly twenty years later, we face a new set of challenges. Competition is fiercer, faster, and more varied than ever before. The economy and inflation have taken a seemingly endless holiday. Action is no longer an option. It is a necessity.

We approached our "elephant" cautiously at first, but committed to staying the course. For our first bite, we established a list of guiding principles – our six-point strategy for growth – that would govern all future activities. Our 1992 Annual Report was devoted entirely to these principles.

Next, we took on the cultural challenges, starting with our executive management team. Members who were not already based in our Salt Lake City headquarters were moved here. Lines of communication were opened across once-sacred geographic and functional boundaries. Last year's Annual Report spoke at length of the team efforts throughout the organization. Slowly, the cultural barriers came down.

Central to our strategy was the need to turn our size, and the economies it can generate, into a strategic asset. In 1994, we took the next big bite when we organized and staffed our "Delta" team. We chose the Greek letter delta to symbolize the changes – both functional and cultural – that this team represents. It brought together 120 of the best and brightest associates from throughout the organization to develop the supply chain. Their three-year mission is to harness our buying power, rationalize our warehousing and distribution systems, and focus the power of information generated by our sales and merchandising systems. More fundamentally, the Delta team widened the circle of commitment to our "one-company" spirit.

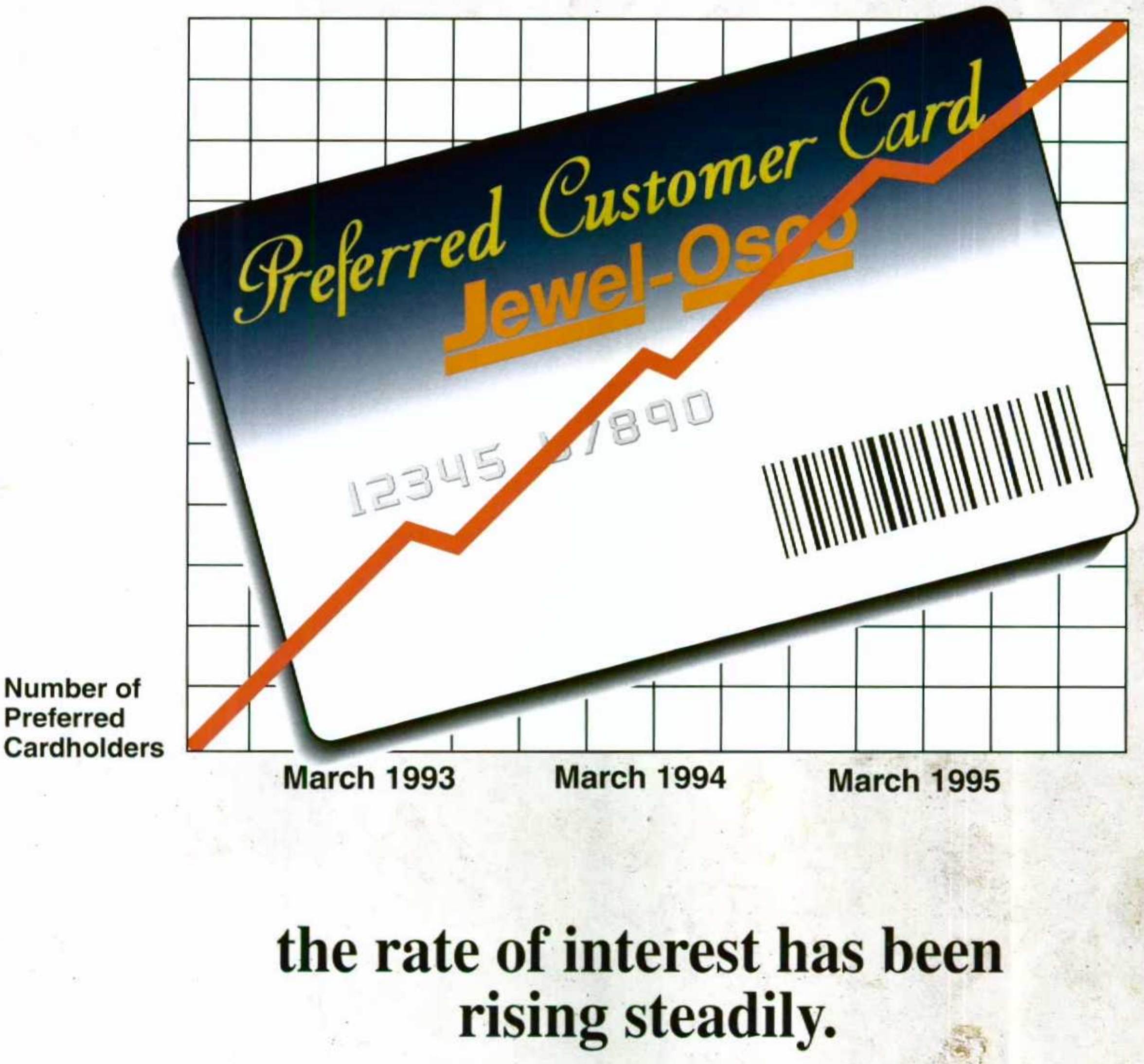
We shifted our attention back to organizational matters early in 1995 as we announced the next step in our evolution. A new organizational structure was developed that focuses on three principal activities: operations, markets, and "backstage" support functions. It embraces multiple format operations run from a single command; it fosters top-line growth through the optimum allocation of store formats and the innovation of new retail concepts; and, it promotes maximum flexibility and efficiency through common support activities.

This year, as we marked the halfway point in our change management strategy, it seemed appropriate to step back and evaluate our progress. This Annual Report does just that. It was conceived, designed, written, and photographed in the style of some of the country's best business periodicals. Seasoned journalists [see Contributing Writers and Photographers, page 6] were recruited and given access to our operations and management team. Photojournalists were invited into our stores and facilities. Together, they chronicled the opportunities and challenges of change. Moreover, they looked outside the company's change management programs and evaluated how we have addressed changing retail, economic, and demographic trends.

Our change management skills are becoming sharper every day, and that elephant is looking a lot smaller – partly because we took our first bites and swallowed hard, and partly because we have been joined at the table by extremely talented people. We feel increasingly confident we can tackle the toughest issues without backing down. By 1997, we will have created a nationally integrated, multiple-format company that understands and surpasses our customers' expectations for value and service. Superior systems and powerful information technology will allow us to personalize our customer-facing operations and streamline the backstage supporting functions. In the end, that's what retail is all about.

Victor L. Lund
April 1995

Since we introduced our card in 1993...



the rate of interest has been rising steadily.

Jewel

Officers

L. S. Skaggs Chairman of the Board

Victor L. Lund President and Chief Executive Officer

David L. Maher Chief Operating Officer

Kent T. Anderson Chief Strategy Officer

Teresa Beck Chief Financial Officer

William J. Bolton Chief Operating Officer – Markets

James R. Clark Chief Planning Officer

Robert P. Hermanns Chief Operating Officer – Procurement and Logistics

Stephen L. Mannschreck Chief Human Resources Officer

Martin A. Scholtens Chief Operating Officer – Retail

Richard L. Davis Executive Vice President and General Manager – American Drug Stores

Richard E. Fredericksen Executive Vice President, National Buying and Logistics

James C. Horn Executive Vice President and General Manager – Acme Markets

Kathleen E. McDermott Executive Vice President, General Counsel and Assistant Secretary

Francis J. Raucci Executive Vice President and Chief Labor Counsel

Don L. Skaggs Executive Vice President and General Manager – Skaggs Telecommunications Service, Inc.

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Roger D. Wilhelm Executive Vice President and General Manager – Lucky Stores Northern California Division

Romeo R. Cefalo Senior Vice President and General Manager – Lucky Stores Southern California Division

Scott Bergeson Senior Vice President, Human Resources

John R. Dyer Senior Vice President, Managed Health Care

Jack Lunt Senior Vice President, Assistant General Counsel and Secretary

Edward J. McManus Senior Vice President and General Manager – Jewel Food Stores

Lawrence A. Metz Senior Vice President and Deputy General Counsel

Neal J. Rider Senior Vice President, Treasurer and Assistant Secretary

Stanley R. Whitcomb Senior Vice President, Information Technology

Meredith C. Anderson Vice President, Public, Government and Investor Relations

D. B. Holt Vice President and General Manager – Jewel Osco Southwest

Jerry M. Hosler Vice President and Controller, Retail Accounting

Bradley M. Vierig Vice President and Controller, Corporate Accounting

Contributing Writers and Photographers

Richard D. James,
former *Wall Street Journal* staffer, writes frequently for business publications and conducts media seminars.

A. Richard Immel
is a California-based free-lance writer and former *Wall Street Journal* reporter who writes widely on business and technology.

Nancy Rutter
has written about business and technology for 20 years and has held staff positions at *Inc., Money* and other magazines. Currently she is a staff contributor for *Forbes ASAP*, the bi-monthly technology publication of *Forbes* magazine.

Gregory Black
is employed by American Stores Company and is an honor student at Salt Lake Community College. He is a staff writer for the college's newspaper, *Horizon*. He will attend the University of Utah in the Fall of 1995.

Tibbett L. Speer
of San Anselmo, Calif., is an economist by training and a journalist by trade. Formerly a daily newspaper reporter, she now covers business and social trends for many publications.

Karen Halverson
is based in Los Angeles, Calif. Her photos of the American west have appeared in major magazines, books and museum exhibitions.

John Harding
is a magazine photographer who has worked for such publications as *Fortune, Time* and *Entertainment Weekly*. His photographs are held in the collections of several museums, including the Museum of Modern Art in New York.

Alen MacWeeney
works both as an editorial photographer for publications such as *Esquire, Life,* and *GQ*, and as a creative photographer. He has published two books, *Irish Walls* and *Bloomsbury Reflections*. His photographs have been exhibited extensively, and are held in the permanent collections of numerous museums in both America and Europe.

HEADLINES FROM 1994

Osco Wins Big with Store Conversion

Ten Jewel food stores in the Chicago area were converted into new Osco drug stores in 1994, and five more are scheduled to follow in the fall of 1995.

The stores range in size from 16,000 to 22,000 square feet, too small to compete with modern grocery stores, but just right for the Osco format. In addition to the typical dry goods lines, each features a mini food mart with fresh produce, dairy and frozen items, canned foods, paper products, baking supplies and household cleaners.

This is a modern, innovative drug store trend. Sales in those stores now open are higher than the average drug store.

"Our relationship with Jewel allows us to put food marts in these stores conveniently and at a lower cost. This is something our competition just can't do," says Dave Gillis, Osco district manager. "We're very pleased with the results."

–Gregory Black

Location is Everything

More than 100 years ago, two friends – Samuel Robinson and Robert Crawford – opened a neighborhood grocery store in south Philadelphia. It didn't take long before these two retail pioneers developed one of Philadelphia's strongest grocery chains, called Acme Markets.

While Acme's growth was concentrated primarily in the urban and suburban Philadelphia markets, the chain also expanded into the rural areas of northern Pennsylvania and southern New York. These stores were served by their own warehouse and frequently required unique merchandising and advertising programs to satisfy their rural clientele.

By the fall of 1994, American Stores Company, Acme's parent, made a key decision. "After careful deliberation, we decided the 45 rural Pennsylvania and New York stores should be sold. While these stores were good producers, they simply fell outside of the core market area for Acme," says Victor L. Lund, president and CEO of American Stores.

One of American Stores' six guiding principles is to operate stores with leading market positions in attractive markets. "The proceeds from this transaction, which totaled roughly $90 million, could be reinvested in stores and facilities located in our core market areas at Acme as well as in other operating divisions," Lund says. The company is evaluating more than 20 potential new and remodeled stores for the Acme chain during the next two years.

–Richard D. James

Quake Can't Shake Lucky's Charm

The January 17, 1994 Northridge earthquake dealt massive physical damage to the land, but failed to shake the spirit of the associates who operate the Southern California Lucky and Sav-on stores.

Coordinating their relief efforts with the California Grocers Association, Lucky and Sav-on helped provide assistance for thousands of stricken residents.

Within 24 hours of the quake the companies donated five truckloads of food, water, diapers, batteries, and other essentials to local community shelters. Fifteen more truckloads were donated in the days following.

In addition, both companies combined to donate $100,000 to kick off a fund raising campaign. When the money was counted, Lucky and Sav-on customers had donated more than $300,000, which was presented to officials of the American Red Cross and the Salvation Army.

Of the 81 stores closed or damaged, nearly all were reopened within a week. There were no reports of serious injury to associates.

–Gregory Black

Company Says Good-bye to Boston

Announcing its intention to exit the Boston grocery market, American Stores Company sold its 33-store Star Market chain for $288 million to an investment group formed by INVESTCORP, an international investment group. The transaction closed in September 1994 and resulted in a one-time gain in the third quarter.

American Stores originally acquired Star Market in 1984 as part of its acquisition of Jewel Companies, Inc. "Although the Star Market operation made a valuable contribution to our overall financial success, we believe that our long-term interests are best served by focusing on the operations where we have significant market positions," says Victor L. Lund, president and CEO of American Stores.

Proceeds from the sale will be reinvested in the company's remaining businesses through its capital spending program.

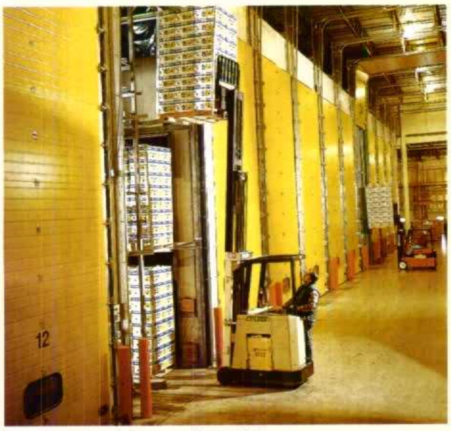
–Richard D. James


NOW YOU CAN FEED THE WHOLE CLUB WITHOUT JOINING ONE.
Thanks to Max Pak, now you can shop for just your family or the whole family reunion, all in one place–at American Stores Company supermarkets including Lucky, Jewel, Acme, and Super Saver.
Max Pak items are in bulk or multi-pack sizes like you'll find at the club and warehouse stores. And best of all, they're name brands–the high quality products you use every day.
So whether it's for the bridge club or the ball club, you'll enjoy convenience, quality, and savings without the membership fee.
MAX Pak
BELL BRAND
A CALIFORNIA TRADITION
TWIN-PAK
DIP CHIPS
TWO POUNDS
NET WT. 32 OZ. (2 LBS.) 907g

New Facility is a Jewel

Jewel Food Stores unveiled its new state-of-the-art perishables facility in February 1995.

Located in Melrose Park, Illinois, the $39 million dollar Jewel Fresh Food Center covers 450,000 square feet, more than twice the size of the three buildings it replaced. It includes 3.1 million cubic feet of frozen and 6.3 million cubic feet of refrigerated storage, 104 shipping and receiving bays, and an ammonia cooling system with advanced safety features.



Also inside are five different temperature and three different humidity zones along with specially designed fruit ripening rooms, including seventeen for bananas alone.

Four hundred employees use computerized control systems to monitor inventory, temperature, humidity, lighting and fruit ripening. An estimated 62 million cases of product will go through the facility annually.

"It gives us an opportunity to use perishable products as our strength," said Jack O'Keefe, Fresh Food Center general manager.

–Gregory Black

Building Toward a Better Tomorrow

The rat-a-tat-tat of hammers was frequently heard around parts of American Stores Company's operations in 1994. That's because during the year, the company spent $565 million on new stores, remodels, and capital improvements throughout its retail chain.

In the 1994 fiscal year ended in January 1995, American Stores opened 49 new stores, adding just about 1.1 million square feet of retail space before closures. On top of that, 166 stores, more than 10 percent of the store base, were remodeled in 1994. The capital dollars were allocated relatively evenly throughout the company's operations: 38 percent spent in the western food group, 25 percent spent in the eastern food group, 23 percent spent in the drug store group, and the remainder allocated to technology.

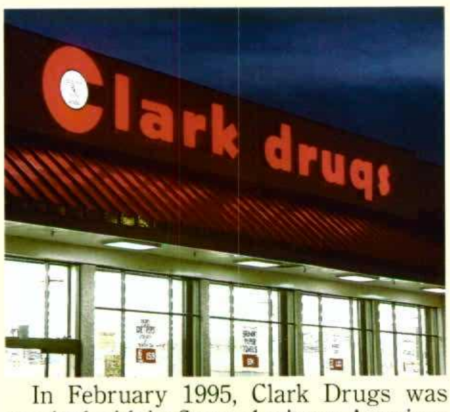
American Stores plans to build on this momentum in 1995 with plans to hike total capital expenditures to more than $700 million. By the end of the fiscal year, the company intends to add 75 new stores and a new perishables warehouse and complete 150 remodels.

–Richard D. James

Reunion by Acquisition

In 1959, Sav-on drug store executive Alton D. Clark and his wife, Ruby, decided to strike out on their own. Following their entrepreneurial callings, they opened the doors of the first Clark Drugs in southern California.

Using a formula for store design and merchandising that Alton Clark learned over the years at Sav-on, the chain grew and prospered. By 1994, the family had amassed 17 stores and achieved sales of approximately $100 million annually.



In February 1995, Clark Drugs was reunited with its Sav-on heritage. American Stores Company, parent of the Sav-on unit, acquired Clark's 17 stores and inventories for approximately $35 million. "The Clark Drugs stores are ideally located in one of our most important markets. There is very little overlap with our existing Sav-on store base, and the integration of these stores should be seamless," says Victor L. Lund, American Stores' president and CEO.

The Clark stores, which average 18,000 square feet of retail space, carry a product assortment comparable to the selection typically found in Sav-on drug stores.

–Richard D. James

A Split and Two Raises for Shareholders

The board of directors of American Stores Company took three important shareholder actions in 1994 and 1995.

In April 1994, they split the company's common stock two-for-one, taking the number of shares to about 142 million from 71 million. This was the company's third stock split in 11 years. A two-for-one split was declared in July 1991, and a three-for-one split occurred in July 1983.

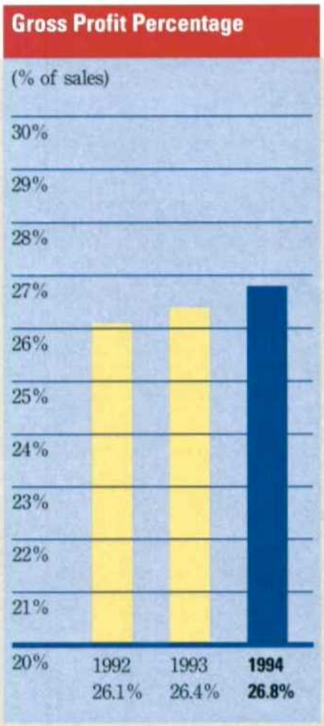
The board also increased the dividend twice. In April 1994, they increased the dividend 20 percent, taking the per share payout from 10 cents to 12 cents. In March 1995, the board once again increased the dividend, this time from 12 cents to 14 cents per share, a 16.7 percent increase. These represented the company's eighth and ninth dividend increases in just over 10 years.

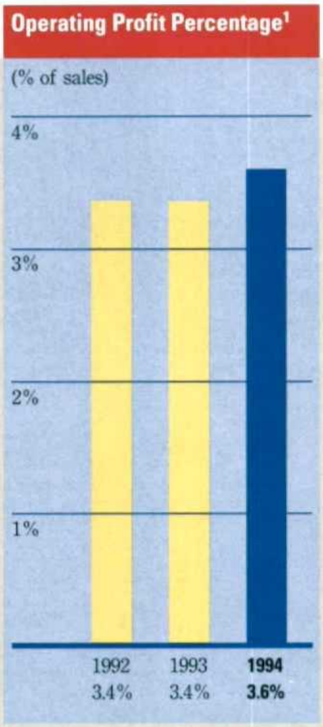
–Richard D. James

GOING UP

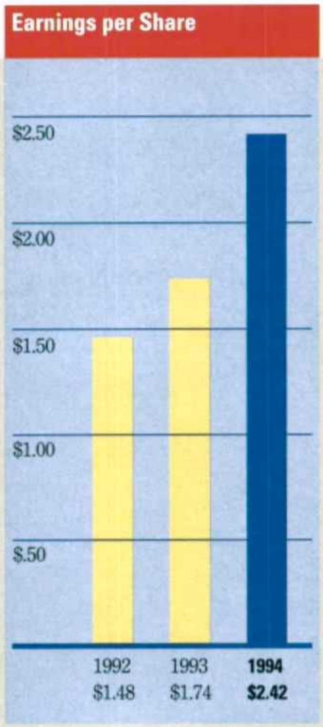
AMERICAN STORES COMPANY POSTS STRONG 1994 RESULTS

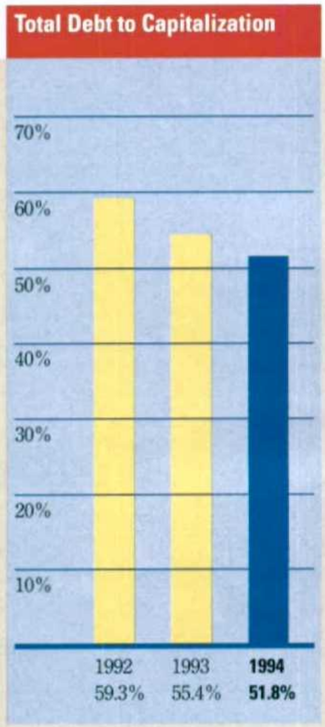
Gross profit percentage increases; operating profit from continuing operations rises 4.4 percent from year earlier





[1] *from continuing operations*





Common Stock Market Prices and Dividends

The market price range on the New York Stock Exchange and the dividends declared on the Company's stock are set forth in the table. The common stock of the Company is listed on the New York, Philadelphia, Chicago and Pacific stock exchanges under the trading symbol "ASC". The number of shareholders of record of the Company's common stock at March 24, 1995, was 18,814.

	1994			1993			1992		
	Market Price		Cash Dividend	Market Price		Cash Dividend	Market Price		Cash Dividend
	High	Low	Declared	High	Low	Declared	High	Low	Declared
First Quarter	$27 3/16	$20 7/8	$.12	$22 3/16	$18 1/8	$.10	$18 5/16	$16	$.088
Second Quarter	26 1/8	23 1/4	.12	23 3/16	20 3/16	.10	18 5/8	15 1/4	.088
Third Quarter	27 1/8	23 3/4	.12	24 5/8	19 7/8	.10	21 1/4	17 9/16	.088
Fourth Quarter	27 3/4	24	.12	22 1/4	19 7/8	.10	23 1/2	20 1/8	.10
Annual Dividend			**$.48**			**$.40**			**$.36**

By nearly any measure, American Stores Company posted outstanding results in 1994. "The 1994 results demonstrate American Stores Company's ability to support its re-engineering efforts while still increasing earnings," said president and chief executive officer Victor L. Lund.

Comparable store sales, a key measure of retail sales productivity, increased 0.5 percent for the year. This reversed negative trends in 1992 and 1993. Comparable store sales include sales from stores and formats open at least one year and replacement stores.

The gross profit percentage continued its steady improvement, climbing to 26.8 percent in 1994 from 26.4 percent in 1993 and 26.1 percent in 1992. The improvement in 1994 was broad-based, with every segment of the business (eastern food, western food and drug store operations) posting higher gross profit percentages.

Operating expenses, measured as a percent of sales, inched up from 22.8 percent in 1992 to 23.0 percent in 1993 and 23.3 percent in 1994. The increased operating expenses reflected the numerous re-engineering initiatives under way throughout the company. These higher expense levels were more than offset by the improvements attained in the gross profit percentage.

Operating profit from continuing operations in 1994 increased 4.4 percent over the 1993 results. Operating profit from continuing operations was $631.7 million (3.6 percent of sales) in 1994; in 1993 it was $605.2 million (3.4 percent of sales), while in 1992 it was $600.1 million (3.4 percent of sales).

Interest expense fell for the fifth straight year as American Stores Company decreased its average debt level and benefited from lower average interest rates. Total interest expense ended the year at $170.7 million, down 10.0 percent from $189.8 million in the prior year. In 1992, interest expense was $214.4 million.

Earnings before non-recurring items and one-time gains jumped to $2.03 per share in 1994 from $1.80 per share in 1993 and $1.58 per share in 1992. American Stores Company had several non-recurring gains during 1994, including the dispositions of the Star Market food division and the 45 Acme Markets stores. Including all gains and non-recurring items, earnings were $2.42 per share in 1994 compared to $1.74 per share in 1993 and $1.48 per share in 1992.

The company substantially improved its capital structure. Total debt, which reached a high of $3.9 billion following the Lucky Stores acquisition in 1988, fell to $2.2 billion at the end of 1994. The debt was reduced using the net proceeds from asset sales together with internally generated funds. At the end of 1994, total debt to capitalization was 51.8 percent, its lowest level in seven years.

The company opened 49 new stores, completed 56 major remodels and 110 minor remodels, and closed or sold 147 stores in 1994. Capital expenditures totaled $565.3 million, bringing the 3-year total to $1.7 billion. In 1995, American Stores has announced that it intends to spend in excess of $700 million to build 75 new and replacement stores and complete 80 major and 70 minor remodels.

Store Count at Year-End 1994

Food Stores

Total Food Stores
816 stores in 11 states

Western Food Operations

- Lucky Stores Northern California Division
  180 stores in 1 state
- Lucky Stores Southern California Division
  234 stores in 2 states
- Jewel Osco Southwest
  11 stores in 1 state
- Super Saver
  11 stores in 1 state

Eastern Food Operations

- Acme Markets
  193 stores in 4 states
- Jewel Food Stores [1]
  187 stores in 4 states

Drug Stores

Total Drug Stores
781 stores in 21 states

Drug Store Operations

- Osco Drug [1]
  531 stores in 20 states
- Sav-on
  250 stores in 2 states

[1] *Includes 149 jointly operated Jewel Osco combination stores which are counted in both Jewel Food Stores and Osco Drug totals.*

AMERICAN STORES COMPANY

MAPPING THE COURSE FOR CHANGE

The giant food and drug retailer figures survival hinges on adopting new ways to outdistance competitors and keep pace with new retailing rhythms

Shrimp isn't something about which you'd expect an $18 billion company to get too excited. Yet around the Salt Lake City headquarters of American Stores Company a few months ago the subject of shrimp was on the lips of all its top executives. Specifically, the planned purchase of several hundred tons of shrimp.

What made these shrimp special is they represented a company "first" and they symbolized a new paradigm for its future.

The occasion was the first time the company's Acme, Lucky and Jewel supermarket divisions had pooled their planning and procurement know-how to buy any grocery product collectively. Before, each chain's buyers would have decided separately how much shrimp they needed and when they needed it, and then negotiated separate transactions, probably with different suppliers at different prices.

So what's the big deal? By acting collectively, the stores expect to save as much as $500,000 on just this one buy. Expanded across thousands of purchases for the company's approximately 1,600 food and drug stores, such teamwork could generate significant savings. Ultimately that could mean higher earnings for the company and lower prices for shoppers.

In fact, those are exactly the sorts of goals American Stores' management has its eye on as it drastically reshapes — re-engineers, in the current corporate argot — one of the nation's biggest retail enterprises from top to bottom.

The metamorphosis began two years ago. When completed in three more years, American Stores will have transformed what was once a financial holding company mainly interested in buying and selling businesses into an efficient, aggressive operating enterprise focused on creating new businesses and growing its existing operations.

> "It's clear that the divisions' autonomy was getting in the way of efficiency."
>
> –Martin Scholtens

In the process, the company's Acme, Lucky and Jewel food chains and Osco and Sav-on drug chains will have surrendered much of their long-standing sovereignty and will have been knit tightly together by a common central support organization and redirected down a common strategic path. Gone will be the days when they operated independently with little thought of what or how the others were doing. "It's clear that the divisions' autonomy was getting in the way of efficiency," says Martin Scholtens, chief operating officer-retail.

For a visitor set down in the midst of this whirling process, its scope boggles the mind. Score upon score of organization charts, diagrams and thick binders detail more than 8,000 activities needed to implement the new vision. They cover everything from standardizing job descriptions, stock unit numbers and store designs across the different divisions to designing and implementing new computer systems and consolidating legal, accounting and procurement functions, among others.

The forces driving this revolution are the same ones affecting businesses globally — increasing competition and changing consumer tastes and needs. Supermarkets and drug stores are fighting off challenges from category killers, convenience stores, fast-food outlets, mass merchandisers, and club and warehouse stores. For instance, club store sales of products traditionally sold in supermarkets have zoomed from zero to about $19 billion — about 5 percent of the grocery industry total — in just a few years. Convenience stores now peddle $27 billion annually of supermarket items, about 7 percent of industry volume.

Shoppers today are increasingly sophisticated and highly value conscious, some say bargain crazy, an attitude born of the economic recession and which endures as times improve. Also, changing demographics — single-parent families, two-earner households, workers pressed for time — are pushing consumers to demand new, more convenient retail formats.

"There have been major shifts in customer habits and lifestyles, and they are never going back," says Victor L. Lund, American Stores' president and chief exec-

utive officer. "People are busier than they ever were before and they don't like to spend so much time shopping for life's necessities."

All of these pressures have combined to squeeze retailers, and when American Stores did a reality check, it didn't like what it saw — namely, a retailer that had been only average in sales, earnings growth, and return on investment during recent years. "Retailing is not rocket science," says Lund. "We quickly realized if we wanted to reach the goals we'd set — to be among the industry's top guns in earnings and sales growth — the way we were running the business wouldn't get us there."

A fast fix, of course, would have been to cut costs, what many management gurus these days call "down-sizing" or "right-sizing." In recent years, much of what has passed for re-engineering has comprised little more than slashing overhead with little or no thought about a company's long-term health. "You can't save your way to success," Lund says. "That's the road to extinction."

American Stores concluded what it needed was something more fundamental, something that would lower operating costs, to be sure, but also set the stage to attract more customers, sell more goods, and better serve both customers and shareholders in the new retailing environment — not merely rearrange the chairs on the deck of a Titanic.

"We have to be a retail organization that is able to give customers what they want in multiple formats and to change quickly when their needs and tastes change — and those changes are coming faster and faster," says Lund.

Financing a revolution isn't cheap. The short-term costs are substantial, says Lund, but some of the expense is being offset as savings and other benefits start to kick in. Ultimately, the benefits will be huge, he says. "When we first did our study of the potential dollar savings, they were so large I didn't even believe them. What I'm comfortable saying is that we only have to achieve a small percentage of the potential synergies on an annual basis to offset the costs of the program. Anything over that is gravy."

In any event, the company has no choice but to go forward, Lund says. "There are two kinds of retailers — the quick and the dead. Those that respond quickly to the changes in retailing will survive. Those that don't are dead."

That is the vision he and other top executives have been busy selling these past months throughout the organization, traveling from one end of the country to the other to talk to employees. Lund describes himself as a cheerleader for the process. One day recently was his first in the office in several weeks. "I have given more talks in eight months than I ever thought was possible. I didn't have a voice for a while," he says, adding that he spends roughly 25 percent of his time on the change process.

The main value of such road shows lies not in what he tells employees, but in simply being present while local division and store executives deliver the message. "The troops probably place more trust in them than me because they've grown up together. But it's critical for me to be there to show that top management supports what is being said," he explains.

Communicating as much as possible to as wide a group as possible is one key to successfully managing the gigantic upheaval, company executives say. "People are far more willing players if you tell them what is going on and why," says Scholtens. "Workers in our stores want to know why. Why is far more powerful than what. If they know why, they can understand what. If people are part of the change process, they see the need to change, and then they can be a strong force for change."

Another key to success, officials say, is formulating a clear vision of the new business strategies and where the company is going before they start tinkering with various parts of the organization. "Without a clear view, you obviously can't communicate a direction for employees," says Kent T. Anderson, chief strategy officer for American Stores.

The company learned that lesson several years ago. It had set out to merge and reinvent some of the separate support systems of the different divisions. However, when those involved asked, "Reinvent them to do what?" their question only generated blank stares. "We had focused on changing the systems rather than the business, thinking that would solve our problems," recalls Teresa Beck, American Stores' chief financial officer. "That experience helped us discover we first had to decide what we wanted to do with the

JOHN HARDING

CEO Vic Lund spends a lot of time communicating with employees on the company's re-engineering efforts. "It's critical for me to show that top management supports what is being said."

JOHN HARDING

The brain trust for the company's re-engineering initiative is the Executive Working Party comprised of Bill Bolton (left), Marty Scholtens, Bob Hermanns, Steve Mannschreck, Teresa Beck, David Maher, Jim Clark, and Kent Anderson.

business, and then let that drive what we do with the systems."

Top management has created a business plan that identifies six corporate strategies as the most critical success factors, including continuous innovation in store design, creative merchandising plans, keeping costs low, and fostering the exchange of ideas and opportunities among the operating divisions.

It also assembled what is called the Executive Working Party, an eight-member group comprised of top executives, as well as two division general managers whose strong backgrounds in operations helped keep the group's deliberations grounded in reality and spotted potential operating problems as new programs were mapped out.

The Working Party acts as a high-level strategy board, keeping the entire process focused, modifying strategies as needed, setting priorities and defining new business processes to support the overall vision. "Before, we didn't have a comprehensive corporate strategy or do a good job analyzing strategic issues, such as prioritizing where we invested our money or how we allocated capital. We're much more focused now," says Beck.

One of the group's other important functions is to nudge the company toward a new one-company culture and away from the old "I'll-do-it-my-way" mentality, which resulted from American Stores acquiring companies with markedly different traditions.

"It used to be if one division picked one type of computer system, another division automatically picked a different one," says Beck. "The Lucky divisions, for example, didn't even end their sales weeks on the same day of the week as the rest of the company. They wanted to maintain their individuality."

If those who belong to the Working Party are the designers of American Stores' new vehicle, those who belong to what's called the Delta Group are the mechanics who are actually building it.

Those at the corporate level also are striving to adjust to new ways. "American Stores has had a culture where there was little room for conflict or disagreement," says Beck. "We needed to change that, and I think we are getting better. We have become more comfortable with confrontation so people will disagree in a constructive way. The fact that the people in the Working Party are candidly saying what they think is a huge step forward."

Another adjustment for some involves a transition from a holding company mentality to an operating mentality. "Someone who has only worked in a holding company has no idea how an operating unit functions," says David L. Maher, American Stores' chief operating officer. "Educating the holding company people about an operating company and vice versa takes time. We spend hours and hours in discussions to create an understanding. It is emotionally intense, but also very rewarding because you really understand each other a lot better. What comes out is a solid team."

If those who belong to the Working Party are the designers of American Stores' new vehicle, those who belong to what's called the

Delta Group are the mechanics who are actually building it. Some 120 strong, half of them were assembled from the various divisions and possess know-how in operating disciplines such as procurement, merchandising, logistics and store operations. The balance are computer systems and software experts who are harnessing powerful new information technologies to support the new business processes and structures being dreamed up by their operating colleagues.

"We're not using outside consultants to build this," says Robert P. Hermanns, chief operating officer — procurement and logistics for American Stores. "We're using our own people who bring the knowledge of how it's done now and what the fundamental steps are. They're charged with putting the pieces together so they work better, not with pleasing the people sitting at the Working Party level."

In more than one instance, the Delta Group has pushed the envelope further than was originally envisioned by the Working Party. "They leap-frogged us because they have been in the trenches and they know in a heart beat what can and can't be done," says Beck. As we listened to their ideas, we realized we didn't know enough to think that far ahead."

For instance, it had been thought a store's merchandise layout probably could not possibly be directed centrally, that only a local store that understood local tastes could decide the best placement for various goods. However, once Delta planners saw the array of new computer systems and other information tools that would be available, they decided centralizing a portion of this merchandising function was indeed possible. "They really pushed the thinking of the Working Party well beyond anything we conceived," says James R. Clark, chief planning officer. "We're learning there are far more things that can be accomplished than we initially thought."

For American Stores' new business strategies to succeed, it's absolutely essential that its supply chain be restructured, which is one of the Delta Group's main jobs. The aim is to create a nationally managed infrastructure that ties together buying, merchandising, warehousing, inventory control and distribution. It will service all the different food and drug store divisions, and if needed, could be expanded quickly to any new businesses American Stores might tackle in the future. Right now, each division has a dedicated logistics system, including separate warehouses and delivery truck fleets. "Those redundancies cost us a lot of money and we can't afford to support that kind of infrastructure and still meet the value equation for our customers," says CEO Lund.

It will take at least two more years for the new supply system to be fully implemented, but tiny steps are being taken by modifying existing systems. Lucky and Sav-on, for instance, now share the same liquor, wine and tobacco warehouse in southern California and their purchases of those items also have been combined, giving them more clout with vendors. Another tiny step is the planned 600-ton shrimp buy that had everyone talking.

These successes are more significant than they might seem at first, executives say. "We'd be naive not to think there's a certain level of skepticism out in the stores about what we're doing," says Hermanns. "These small tests allow our associates to see we're on the right track, that coordinated efforts can pay off for all involved."

When a visitor asks Lund if this project ranks as one of the toughest management challenges of his career, he pauses thoughtfully. "It is clearly a very difficult change to pull off because it is so massive," he responds finally. "On the other hand it may be one of the easiest I've ever faced because I so strongly believe we need to do it. It's not only financially necessary, but it is intellectually and morally correct. Long term, it will save the jobs of the associates we have here, and that is an obligation I take very seriously — right up there with building value for our shareholders."

–Richard D. James

KAREN HALVERSON

A planned combined shrimp purchase by American Stores' three supermarket chains is a company "first" and is expected to save hundreds of thousands of dollars.

New jobs at the top

When top officials of American Stores Company claim the retailer's huge re-engineering initiative is reshaping the company from top to bottom it's no exaggeration — at least, as of March 9, 1995.

That's when the program, which has focused on every operating detail down to the lowest level, finally hit the executive suite.

American Stores formed a new leadership team known as the Executive Council, which will be led by Victor L. Lund, president and chief executive officer, and assigned new job responsibilities and titles to many of its highest executives who were appointed to the Council.

"This new organizational structure is evolutionary, not revolutionary, and simply reflects all the business changes we've made since 1992," Lund says. "It's the logical next step in our ongoing transition from a holding company to an operating entity."

The reassignments came after the officials were interviewed for various articles in this report. Here's the new lineup of titles and responsibilities:

- **David L. Maher, formerly head of drug operations, became chief operating officer for the entire company.**
- **Martin Scholtens, who previously ran Lucky Southern California, is now chief operating officer-retail, in charge of both food and drug retail operations.**
- **William J. Bolton, formerly head of Jewel Food Stores, was named chief operating officer-markets. He is responsible for allocating the proper mix of retail formats in each market as well as for generating innovative, growth-oriented retail formats to meet changing customer lifestyles and needs.**
- **Robert P. Hermanns, earlier chief operating officer-food, became chief operating officer-procurement and logistics.**

Centralized administrative services will be supervised by six other executives:

- **Teresa Beck continues to head finance with the title of chief financial officer.**
- **Kent T. Anderson, formerly head of real estate operations, becomes chief strategy officer.**
- **James R. Clark, formerly in charge of strategy and change management, becomes chief planning officer.**
- **Stephen L. Mannschreck continues to oversee human resources with the title of chief human resources officer.**
- **Kathleen E. McDermott continues as executive vice president and general counsel.**
- **Francis J. Raucci continues as executive vice president and chief labor counsel.**

–R.D.J.


ACME

CAPITAL IDEA

NEW STORES, STRONG MARKETS KEEP RETAILER ON TOP

Capturing the number one or two spot in a market is an important component of the company's strategy

How do you stay atop the market rankings if you're one of the nation's leading food and drug retailers?

One way is to tend your mix of stores as diligently as a shepherd tending a flock of sheep, continually assessing their health, selling some, and adding new stock when the opportunity arises.

American Stores Company has adopted just such a strategy. The company's objective is to be either number one or two in all the major markets in which it operates. Its quest to maintain market leadership is one of the key building blocks in the company's current drive to reinvent itself for the future to better serve customers and shareholders.

Since 1988, its flock of stores has changed drastically. That year it disposed of 170 stores. Last year, it sold the 33-store Star Market food division in Cambridge, Mass., and 45 Acme Markets food stores in northern Pennsylvania and New York for a total of about $380 million.

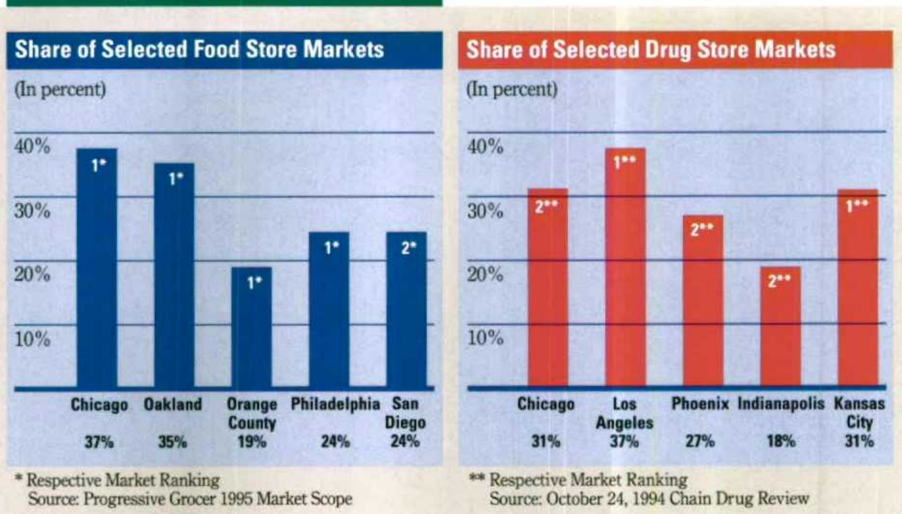
In the past seven years, close to 600 stores have gone on the block, fetching about $1.4 billion.

The company hasn't hesitated to get out of some markets entirely where it didn't see any near-term prospects of achieving a major market share. Ironically, this even includes its headquarters state of Utah, where it sold both its grocery and drug stores. Perhaps more than anything else, that move underscores American Stores' determination to stay at the top of the pack.

On the flip side, it has been busy acquiring stores where it wants to improve its market share. In early 1995, it bought 17 drug stores in the Los Angeles area from Clark Drugs. Earlier it added 55 drug stores in the Midwest, purchased from Reliable Drug, and 85 drug stores in southern California, acquired from Consumer Value Stores (CVS), a Melville Corp. division.

"Our objective is to have the leading share of a market's retail dollars," says Kent T. Anderson, the company's chief strategy officer. "That way we can make the most efficient use of logistics systems like warehouses and delivery fleets, as well as fully leverage our advertising dollars and administrative costs."

Leading Markets



* Respective Market Ranking
Source: Progressive Grocer 1995 Market Scope

** Respective Market Ranking
Source: October 24, 1994 Chain Drug Review

The company has shown itself to be a smart horse trader. It generally has succeeded in buying low and selling high. For example, recent drug store purchases have come at a time when many small chains have come on the market. These smaller chains have encountered tough sledding in an era when managed health care programs are trying to clamp a lid on prescription and other medical costs.

For American Stores, it's an opportunity to fill gaps in its Osco and Sav-on drug store networks. That gives it more muscle in competing for third-party prescription business in which employers, insurance companies or HMOs pick up the tab for patients' prescription drugs. "We're going after this type of business aggressively because it's the wave of the future," says David L. Maher, the company's chief operating officer.

Proceeds from store divestitures have been put to a variety of uses, including paying down long-term debt and expanding and refurbishing older stores.

The proceeds have also been used to help fund new store construction, an effort that American Stores has beefed up recently. Capital spending is expected to jump to over $700 million in 1995 from $565 million in 1994 and $653 million in 1993.

"To have a growth business you need more new sales and the best way to get those is from new stores, either in new markets or in markets where we can pull in new customers," says Anderson. "This year (1995) we'll probably open 50 new drug and 25 new supermarkets or combination stores. That's more new stores than the company has opened in several years. And if you look into 1996 and beyond, that number should grow to 90 or 100."

At its Acme supermarket chain, for instance, the company has decided to put remodels on hold and focus almost exclusively on new stores and enlarged stores. This year, says Anderson, the company plans to build six new Acme stores and do only one major remodel.

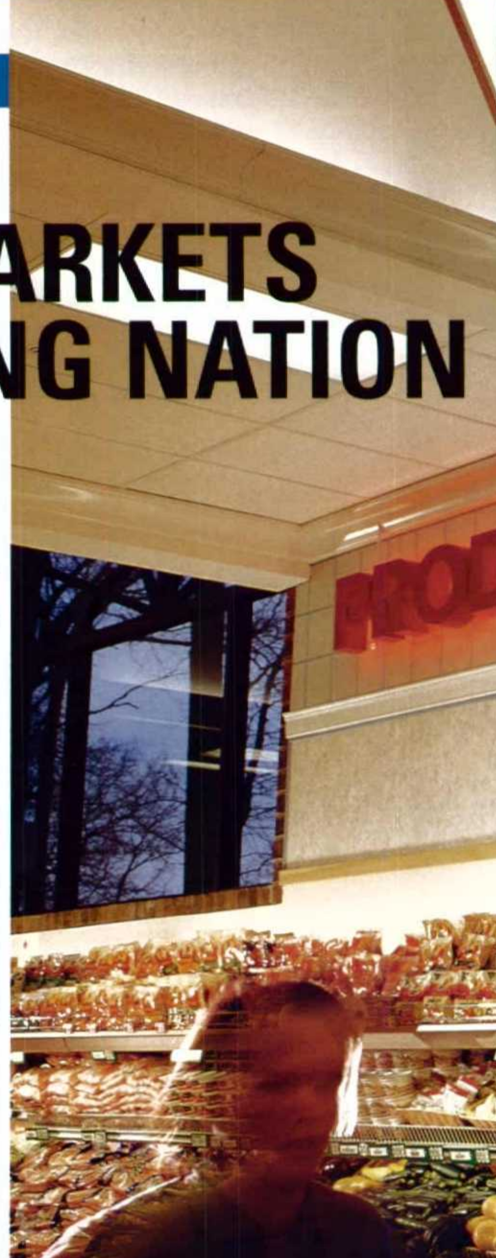
"Our corporate re-engineering program is allowing us to act more like a single company instead of five or six companies. As a result, we are starting to be much more strategic about how we allocate our capital than ever before," he says. "It's just another example of the many synergies flowing out of this immense effort."

–Richard D. James

STYLISH STORES

'NEW LOOK' FOOD MARKETS CATER TO A CHANGING NATION

Acme, Jewel and Lucky supermarkets serve diverse clientele by employing cutting-edge retailing techniques



Bilingual clerks in Los Angeles. Computer shopping in Chicago. Asian specialties in San Francisco. Healthy hams in Philadelphia. The nation's supermarkets are changing, and those are just a few of the features that distinguish their new face.

As shifting demographics and customer tastes sweep the country, American Stores Company is on the cutting edge of what the industry is doing to change the look and feel of food stores to take advantage of the new realities and new marketing opportunities.

From coast to coast, the results are striking. Indeed, the Lucky, Jewel and Acme supermarket of today is not your father's grocery store. Managers are tailoring what they sell and how they sell it to meet regional and even neighborhood tastes. "One size no longer fits all in the retail food business," says Martin Scholtens, the company's top retailing official.

New stores today run the gamut from warehouses with rock-bottom prices and self-bagging, to stores with take-out gourmet pasta sections and upscale espresso bars. Stores have gotten bigger, fresher-looking, and more inviting. In one Acme store, for instance, big, naturally lighted windows show off its produce section. There are stores with banks, and stores with photo labs. Healthy foods are in. So are perishables: more frozen foods, flowers, fresh fish-on-ice and winter-fresh produce shipped in from South America.

The driving force that's creating this diversity is changing demographics that are reconstituting neighborhoods across the nation, particularly in urban centers. The shifts cut across income, age and ethnic boundaries. In Los Angeles, for example, Scholtens notes that Hispanics represent nearly 35 percent of the population, making it the third largest Hispanic city in the world, ahead of Madrid, Spain.

"Our food stores have to reflect who we're trying to sell to," he says. In southern California, that means bilingual clerks, signs and advertising, as well as business arrangements with Mexican food distributors.

Lucky North is taking a similar approach. A San Francisco supermarket in an Asian neighborhood features an 84-foot-long aisle stocked with Asian foods unique to that site. "We don't carry variety like that in any other store," says Roger Wilhelm, executive vice president and general manager of Lucky North.

Across the bay, a multi-storied supermarket in an upscale East Bay neighborhood offers validated parking, carryout fresh pasta and one of the largest premium wine selections in the area. "In our new prototype stores, we're putting in shops where we make our own sausages and smoke our own meats like turkey and chicken," Wilhelm says.

On the east coast, Acme has long tailored its stores to ethnic neighborhoods, but this year it's stepping up its efforts by assigning a specialist to do ethnic merchandising in the division's big combo stores. The chain also is revamping its direct-mail advertising materials to target individual ethnic neighborhoods.

In the East, ethnic means not only Hispanic, African American and Asian, but also Armenian, Jewish, Russian, Irish and Italian, just to scratch the surface, according to James Horn, executive vice president and general manager of Acme. "The east coast is still the melting pot of America," he says.

The trend in the retail food industry is to build larger stores and close smaller ones. According to a report compiled by Progressive Grocer, a trade magazine, the average number of items carried by the typical chain supermarket has nearly doubled in the past decade to 20,300 from 10,900. To make room for all this added stock and accommodate the proliferation of other in-store services such as bakeries, delis and banks, the average store size has grown by more than one-third, to 37,200 square feet during the same 10 years.

All three American Stores food divisions — Lucky in the West, Jewel in the Midwest and Acme in the East — reflect the trend. The company is building new food stores in the 50,000-to-70,000-square-foot range. Many older, smaller stores are slated for remodeling and enlarging to freshen their appearance. The smallest will be closed.

Jewel is adding "combo" units that combine full-size supermarkets and drug stores under one roof. "We're putting a great deal of emphasis on fresh foods such as produce, deli, fresh bakery, meat products and dairy," says William J. Bolton, American Stores' chief operating officer for markets. Fresh produce is the signature of the store and in common with most stores nationwide, the produce section is situated in the front of the store to carry out Jewel's "New Fresh Feeling" theme.

"We continue to experiment with just about everything," Bolton says. That includes full-service banks, dry cleaning services, and prepared food sections. Jewel has leased space in some stores to outside fast food vendors and specialty shops, such as Fanny Mae candy stores. But Jewel also is enjoying excellent results from its private-label rotisserie chicken, which came out a winner

ALEN MACWEENEY

against the leading national rotisserie chicken chain in a recent Chicago Tribune taste-off.

Another promising program is a preferred customer card that provides special discounts and other features to regular customers. Jewel compiles marketing data from the cards which it then uses for a highly successful internal direct-mail program.

Acme's Jim Horn believes the central challenge for food retailers in today's non-inflationary economy is to find creative ways to give customers value and still increase a store's sales base. Last year during the Christmas holidays Acme offered customers a premium line of low-sodium, no water added semi-boneless and boneless precooked hams. "They bought every one we had," Horn says.

DONALD MILLER

Above: A brighter, fresher ambience, such as in this Acme food store in King of Prussia, Penn., is one of the hallmarks of American Stores' new supermarket formats. Inset: Preferred customer card brings added benefits to Jewel customers.

Acme also is experiencing great success with an 800 number it installed to take phone orders for party trays during the holidays. The deli section has down-played its traditional varieties of potato salads at 89 cents a pound in favor of upscale items like tortellini salad and roasted pepper salad at five and six dollars a pound. Moreover, it has successfully cultivated the luncheon crowd. "We do a tremendous lunchtime trade with

Supermarkets provide customers added convenience by bringing in outside services and specialties such as this Fannie May candy store in the Orland Park, Ill., Jewel store.

ALEN MACWEENEY

our salad bars," he says.

Changing lifestyles are part of the demographic wildcard that Horn believes will continue to trigger profound changes in the retail food business, forcing retailers like American Stores to stay nimble in order to adapt. When both spouses in a household work, for example, they shop and buy differently than other households. Weekday hours between 4 p.m. and 7 p.m. are now the busiest shopping times. By the end of 1995, Horn thinks Sunday will supplant Saturday as the biggest sales day of the week. "The change in the way people shop for food and the impact it's having on our business today is just phenomenal," he says.

–A. Richard Immel

Food by the byte

ALEN MACWEENEY

A top operating official of American Stores calls it "The Virtual Grocery Store." However you describe it, it's certainly an example of how high and low technology are converging in the retail food industry.

Instead of pushing a grocery cart through the supermarket, busy two-career couples, elderly shut-ins or anybody with access to a personal computer can now shop Jewel's Chicago stores with a few taps on a keyboard. "The entire store is on the computer, so it's really electronic shopping," says William J. Bolton, chief operating officer-markets.

The on-line systems and product listings that make the service possible are operated and kept up to date by Pea Pod Delivery Systems, Inc. The computer listing includes weekly sale items and bonus specials, giving on-line customers the same benefits as in-store shoppers.

Jewel employees ring up the order and it's delivered by Pea Pod drivers. There is a delivery charge and a membership fee. "It's a great value and a convenience our customers like," Bolton says.

He expects virtual grocery shopping to expand to the entire Chicago area by year end. "It's not going to revolutionize the industry, but it's growing nicely and it fills another niche in the marketplace."

–A.R.I.

REINVENTING THE NEIGHBORHOOD DRUG STORE

Osco and Sav-on chains find new store layouts and smaller sizes come up winners in more ways than one

At a time when bigger seems better and mass merchandisers try to be all things to all shoppers, American Stores Company's drug stores are taking the path less traveled. The company is building smaller stores away from shopping centers and reinventing the drug store as a pharmacy and a health care center.

The company calls this model for the future the Vision store. It's based on a reevaluation of what the drug store ought to be. "We concluded the future of the drug store should be built principally around the prescription business because that's our heart and soul," explains David L. Maher, American Stores' chief operating officer.

The blueprint was to build smaller stores offering less general merchandise and more health categories such as durable medical equipment, home health testing kits, sports and nutrition items and health foods — categories that fit a concept Maher calls "Look Good, Feel Good."

Two years later, the Vision store concept is a winner. "In 1994 we had the best comparable drug store sales increase in five years," Maher says. "We can't attribute that all to the Vision concept, but the new product mix that grew out of it has improved our gross margins, particularly in non-pharmacy areas." In 1994, Drug Store News, a trade magazine, named Vision the best new drug store prototype to emerge in the last 10 years.

Physically, the Vision concept is a whole new way of presenting the drug store to the customer. It locates the pharmacy so that it is visible from the front of the store and adds a customer service center and waiting area. Changing the category mix has also been a key element. Substantially cutting general merchandise categories reduced selling space by 2,500 square feet in the original Vision model. Second-generation stores reduced selling space a little bit more. Yet, with Vision units generating the same sales volume on smaller space, sales per-square-foot, an important measure of drug store efficiency, has jumped.

The newest generation Vision store is a stand-alone unit located, where possible, away from food stores and shopping centers. This reinforces the neighborhood pharmacy and health center image and makes room for drive-up prescription windows, which account for about 15 percent of the pharmacy business in the stores that have them.

About 100 of the division's 781 drug stores are open 24 hours. Although late night business itself doesn't cover the added costs of extra pharmacists, it more than pays for itself in other ways. "If you ask customers why they get their prescriptions filled here, most of them have small children, or they're elderly, and they say it's because they can get prescriptions filled at three in the morning if they have to," Maher says. "The pharmacy is there if they need it, and consequently, they bring us their daytime business as well."

The company plans to open about 50 new Vision stores this year, up from 27 in 1994, and continue retrofitting existing units. So far

Sav-on's Fallbrook, Calif., store in San Diego County is typical of the new Vision format.

about half of the company's drug stores use the new format, including all 57 drug stores in New England. "I think we'll be fully converted in two years," Maher says.

"We've learned a great deal since we first initiated the Vision concept two-and-a-half years ago," Maher concludes. Based largely on customer input, the company modified interior design several times, altered product mix and dramatically lowered the expense of retrofitting existing stores in ways that are saving the company millions of dollars. Adding new sections such as home diagnostic and medical testing equipment, sports nutrition departments and home health care centers caters to the needs of every age spectrum of America's changing demographics.

"In this spirit, we will continue to evolve and refine the Vision store concept," Maher says. "It's the essence of the central 'vision' behind Vision — to give our customers the best drug store in the business."

—A. Richard Immel

ALEN MACWEENEY

Drive-up prescription windows, such as the one manned by pharmacist Taylor Burch at the Wichita, Kan., Osco Drug, are an innovative new way to provide customer convenience.

KAREN HALVERSON

A NO-FRILLS BUSINESS

SUPER SAVER STORES PROVIDE NEW GROWTH PROSPECTS

New warehouse-type stores allow company entrée to a format that is growing quickly in some areas of the country

The Wall of Savings at the Super Saver store in Rialto, Calif., is designed to produce maximum visual impact as customers enter.

The signs at the Pittsburg, California, store say it all:

"Club Prices Without the Club."

"No Frills, Lower Bills."

"You Bag, You Save."

Welcome to Super Saver, the newest food division of American Stores Company. As the signs proclaim, it's a no-frills warehouse-type operation that sells top quality products at some of the lowest prices.

This division was created last year to compete in a market segment that is growing rapidly in certain parts of the country. "We opened 11 stores between September and November of 1994," says Robert P. Hermanns, a top American Stores operating official. "We're rapidly building volume," he says.

The company felt a need to expand beyond its traditional food and drug store operations because growth prospects in those businesses are limited by a sluggish economy and fierce competition. "Growth is going to come only to those who innovate," Hermanns says.

So far, Super Saver is a California operation. All of the existing stores are converted Lucky food markets and are basically split between north and south. They range in size from 27,000 square feet to 62,000 square feet. The new chain plans to push eastward in the future.

Super Saver's success depends on a combination of visual impact and rock bottom pricing. "Every area is different, but national

KAREN HALVERSON

KAREN HALVERSON

Frozen foods, like other Super Saver items, are priced at least 10 percent below those in conventional supermarkets.

surveys indicate that price is a major consideration for a significant portion of food shoppers across the country," says Frank Martin, director of operations.

The layout of the Super Saver in Pittsburg, a San Francisco suburb, is typical. As you enter, the visual impact is immediate. Directly ahead is the "Wall of Savings," literally a wall stacked high with five or six specially discounted packaged grocery items. A few feet to the right, huge display tables groan under the weight of colorful mounds of bulk fresh produce: apples, oranges, red and green chile peppers, bananas and tomatoes. Reflecting the customers' big families and ethnic makeup (35 percent are Hispanic, 30 percent African American), dry grocery aisles are stocked with 20-pound sacks of rice, beans and farina (flour); the meat section, which extends across the back of the store, carries extra portions of locally popular meat cuts.

Although the stores only carry about 60 percent of what's stocked in a conventional supermarket, surveys indicate many customers believe Super Saver actually carries a larger selection.

"To be perceived as cheaper you really have to be cheaper," explains executive vice president and general manager Charles Sprinkle. "Our Super Saver prices are 10 percent to 12 percent lower than conventional supermarkets to offset the service we don't offer." Furnishings aren't fancy and customer service is limited. There's no tile on the concrete floors, and bare ceilings reveal the roof insulation between the rafters. Industrial-style steel shelving stacked high with cardboard cartons defines the dry grocery aisles. The bakery, deli and meat sections are self-service.

Everything in a Super Saver store is designed to maximize productivity and lower costs without lowering food quality. For example, at the company's dairy distribution facility, milk is pre-loaded onto specially designed rolling racks that are rolled directly from the delivery truck into a store's dairy cooler. The rack is the display.

In the meat section, meat cutters arrive at 6 a.m. and split the day's work into specialties; one saws, one cuts, one trims and one packages. By noon, that day's cutting is finished and the workers prepare the carcasses for the next day's work. By 3 p.m. they've gone home.

Dry groceries and produce are handled in pallet sizes wherever possible. Instead of putting items on shelves individually, stock clerks simply cut the sides out of the cardboard cartons.

Checkout stands are equipped with split counters to speed the line as shoppers bag their own groceries. Self-bagging is not a gimmick. It's a method of doing business that distinguishes Super Saver from a conventional supermarket and allows it to significantly cut labor costs.

The success of the new Super Saver format ultimately lies in the hands of the people running it. On that score, Sprinkle is confident it will be a winner. "We've hired the best people in the industry to complement the Lucky and American Stores people who understand our culture and our existing systems," he says. "We're very proud of our team. We know how to buy product competitively, and we truly understand how to cut every penny of expense out of the operation."

Richard Jones, director of the Pittsburg store and an 18-year veteran of the company's Lucky supermarket division, can hardly contain his enthusiasm for the new business. "I was looking for a challenge," he says, "and this was an opportunity to be part of a brand new company. It's a risk, but it's also exciting."

–A. Richard Immel

Super Saver customers bag their own purchases, which helps the stores keep labor costs low.

KAREN HALVERSON

BANKING ON LUCKY

TWO GIANTS TEAM UP TO HELP BUSY CUSTOMERS

Collaborating with Bank of America, Lucky Stores is moving to add banking services in all of its outlets by 1998

Does this sound familiar?

Your work day just ended. You're dead tired, but you can't go home yet. First you must fight commuter traffic to get to the bank and deposit your hard-earned check. Then back into traffic. Destination: grocery store. Home seems but a mirage on a distant horizon.

The above scenario will soon be a thing of the past for customers of Lucky Stores, California's largest grocery retailer. Lucky has joined forces with Bank of America, the state's largest bank, in a project to install bank facilities in nearly every Lucky store.

"Over the last couple of years we've become convinced that in-store banks make sense where space is available," says Neal J. Rider, senior vice president and treasurer for American Stores Company, Lucky's parent. "We hope we'll convert some non-customers and strengthen some that we have."

Lucky has a long history of such retailing innovation. In 1986, it became one of the nation's first supermarket chains to allow customers to pay for purchases with their ATM cards. This latest agreement extends far beyond even that.

Of nearly 400 participating Lucky stores, about 100 will receive full-service bank branches. Installation will take place at the rate of about 33 a year over the next three years. In all but bricks and mortar, the branches will look like banks and act like banks — maybe even better. They will operate seven days a week, some with hours as late as 9 p.m. Tellers and other customer service representatives will staff each one.

The other 300 stores will receive ATMs and 24-hour customer service telephones. Installation should be complete by mid-1995.

The Lucky-Bank of America alliance represents synergy at its finest. Bank of America operates more than 1,000 branches and 3,400 ATMs throughout California. Both companies lead the state in their respective fields.

Liam E. McGee, Bank of America group executive vice president, retail banking, predicts the partnership will "change the face of banking in California. Customers use banks on average about once a week. They go at least that often to buy groceries. Now we can let them combine those visits."

Lucky and Bank of America plan to develop joint marketing projects to promote the newly combined services.

–Tibbett L. Speer

At a San Francisco Lucky store, customers need just one stop to handle their banking and grocery shopping.

RxAMERICA: A NEW PRESCRIPTION FOR GROWTH

Retailing giant rides the health care revolution with it own pharmacy benefit management company

JOHN HARDING

RxAmerica's Jan Erickson (left), Vicky DiGregorio, Jean Rolando and Kathryn Baker; teamwork is one key to successfully managing pharmacy benefit programs.

The last time you visited your neighborhood drug store, you may not have noticed, but there was a revolution underway.

It is part of the upheaval going on in the nation's health care system, and it is drastically changing how drug stores will have to operate in the future if they want to survive.

To better understand what is going on, take a look at American Stores Company and the Osco and Sav-on drug store chains it operates, which are in the forefront of the industry's change, some might even say leading it.

Not long ago, American Stores started its own pharmacy benefit management program (PBM), known as RxAmerica.

A PBM is a service that has emerged recently as a result of the health care revolution. Its purpose is to manage the prescription drug benefits provided to Americans through health care plans. These plans are offered by employers, unions, insurance companies, health maintenance organizations (HMOs) and other groups — "third-party payors," in health care industry jargon.

Most PBMs evolved out of claims processing and mail order businesses. More recently, pharmaceutical manufacturers have entered the arena through major acquisitions of existing PBMs. It is relatively unique for a retailer to form a true PBM organization.

So why did American Stores decide to break new ground and jump into the business? One reason is to better serve its customers and get the jump on competitors. The number of people whose health plans pick up at least a part of the prescription drug bill is growing rapidly. Last year more than two-thirds of the customers who brought in prescriptions to be filled at Osco or Sav-on stores fit that category.

The PBM earns a fee paid by its clients — the various third-party payor plans — for managing and administering the programs. RxAmerica provides plan participants with identification cards, processes their prescription drug claims, and keeps track of how much employers or other third-party groups are obligated to contribute.

"We put all the parties together," explains David L. Maher, American Stores' chief operating officer. "On one hand, we contract with employers and other payor groups to manage their prescription plans. On the other, we negotiate with drug manufacturers to include their pharmaceuticals in our standard formulary and with retail outlets — ours and others — to fill the prescriptions."

"The health care industry is changing enormously, and this is a particularly opportune time to be part of that change."

–David L. Maher

The whole process is being driven largely by third-party payors' frantic efforts to bring down skyrocketing health care costs. A PBM like RxAmerica plays a key role in that effort. Because of the large number of participants in its program, a PBM can negotiate more favorable terms with manufacturers and pharmacy providers in its network. This means lower costs for third-party payors like employers, and higher sales volume for the pharmacy providers and drug manufacturers.

RxAmerica offers another valuable tool for helping to lower pharmacy benefit costs — specifically, drug and medical information management. By monitoring drug utilization data and combining this with medical information, RxAmerica can play a significant role in managing inappropriate drug use and improving medical outcomes. This can mean more efficient, cost-effective health care for plan participants, and lower overall health care costs for payors.

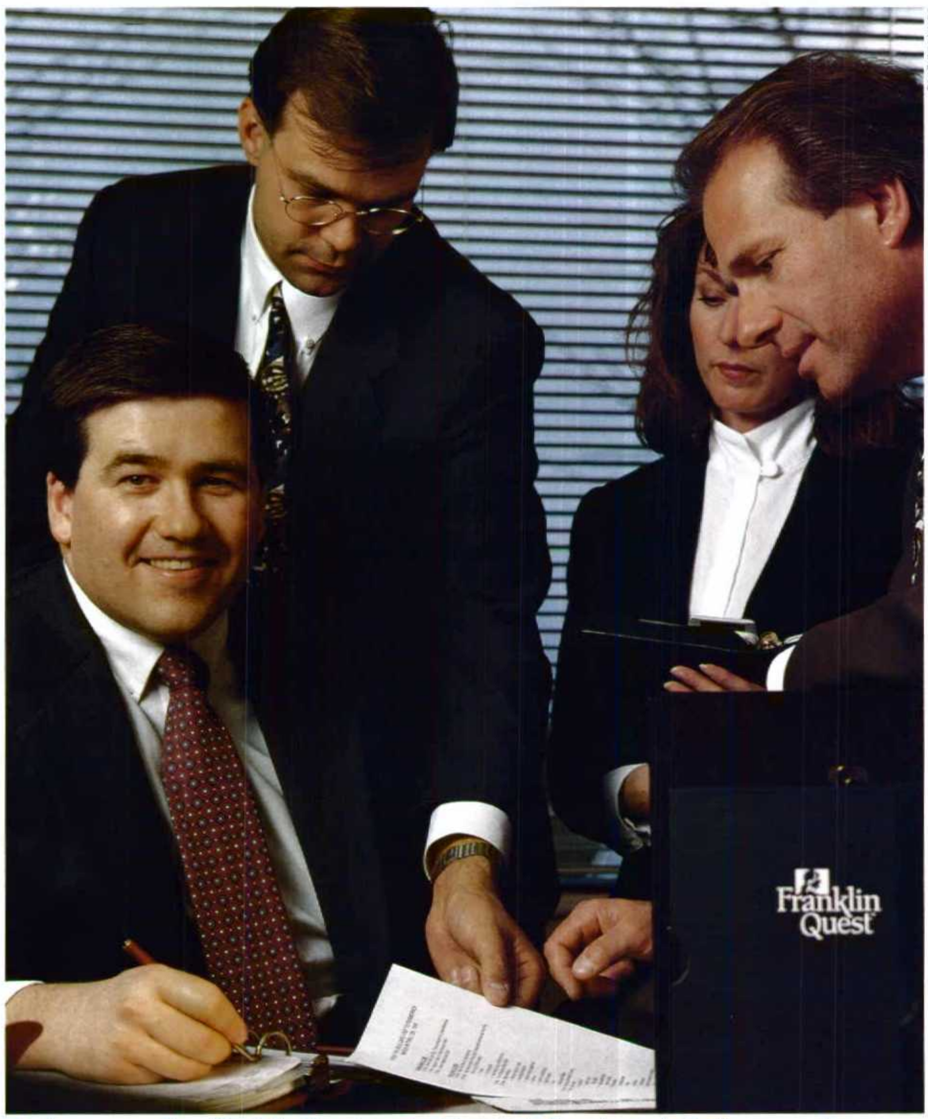
"It's a win for everyone," says John Dyer, general manager of RxAmerica. "Pharmaceutical manufacturers with whom we contract sell more products. Third parties, such as employers, keep their costs down by contracting with us to serve their members. We get new customers, and the plan participants get more convenient service."

Interestingly, RxAmerica is not limited to just American Stores retail store operations. While the company's nearly 800 drug stores are an important part of the RxAmerica pharmacy provider network, it has contracted with approximately 35,000 drug store locations from coast to coast to provide the pharmacy services to its plan participants. "Third-party payors want ease of access, outstanding customer service, and convenience for their members just about as much as they want to lower their costs. It's critical that the PBM network offer pharmacies near the homes and workplaces of plan participants," said Dyer.

In its short life, RxAmerica has landed contracts with more than 30 organizations with thousands of members. Among them, for instance, are the employees of Franklin Quest, a well-known manufacturer of datebook calendars. Others include unions, HMOs and big and small companies — all seeking the same thing: lower health care costs, convenience, and efficient pharmaceutical care.

"The health care industry is changing enormously, and this is a particularly opportune time to be part of that change," notes Maher. "Rather than viewing ourselves as merely the drug delivery vehicle, the development of our PBM enables us to take a more meaningful, and potentially more profitable, stake in the health care industry revolution. It's absolutely fascinating."

–Tibbett L. Speer



JOHN HARDING

Businesses such as Franklin Quest are looking to RxAmerica to help them cap pharmacy benefit costs. Franklin Quest's Dell Nixon (left), and Juanita Nichols (standing, right) work with RxAmerica representatives Alan Kellogg (standing, left) and Wade Hall (right).

HANDLED WITH CARE

THE PRESCRIPTION IS IN THE MAIL

American Stores Company gears up to capture a bigger share of the nation's fast-growing mail-order pharmaceutical business

Pharmacists at the RxAmerica facility in Salt Lake City, Utah, fill as many as 7,000 mail-order prescriptions a day. Here, prescriptions receive

Thanks to the mail-order pharmacy operated by American Stores Company, neither rain, snow, sleet, hail, old age, nor disability can separate customers from the medications they need.

The company's mail-order service, which it has operated for years out of a Salt Lake City facility, has grown into an increasingly popular alternative for budget-conscious pharmacy customers and those who want convenience. The business brought the company approximately $50 million in sales in 1994.

However, now that American Stores has started its own pharmacy benefit management service (PBM) for third-party health care providers such as employers and unions, the mail-order business, which is conducted through its RxAmerica division, promises to assume even greater importance.

Industry mail-order prescription drug sales have been growing rapidly in recent years, industry experts say. In 1992, the latest year for which results are available, mail-order volume totaled $3.8 billion, or

KAREN HALVERSON

a final check before being dispatched.

about 7 percent of the total U. S. pharmaceutical sales. Over the next five years, mail-order sales should grow at the rate of at least 25 percent annually, industry experts predict, based on the growth experienced between 1989 and 1992.

Third-party providers are seeking to hold down medical costs any way they can, and the mail-order prescription business is a strong vehicle for helping reach that goal. By simply posting an envelope — and more recently, just by dialing a telephone — customers can buy prescriptions, vitamins, thermometers, and other health care products at prices anywhere from 5 percent to 15 percent less than if they had purchased the items off a drug store shelf. Prices of items stocked in a store have to cover overhead costs that aren't incurred in a mail-order business.

RxAmerica is taking a number of steps to get ready to handle the anticipated increase in mail-order business. The division recently broke ground on a new mail-order facility in Fort Worth, Texas. As many as 400 pharmacy professionals and others will work in the new plant. They'll have the capability of filling as many as 15,000 prescriptions a day. That's 50 percent more than the capacity of the Salt Lake City operation.

Even while it focuses on the new plant, RxAmerica also is greatly improving its existing Salt Lake City facility. A new, sophisticated telephone system has been installed. Without waiting for human assistance, the customers can place new orders or check on earlier orders using an automated voice-response system. Of course, if a customer needs help or wants to talk directly to a pharmacist, that's easily arranged by tapping a telephone key during the call.

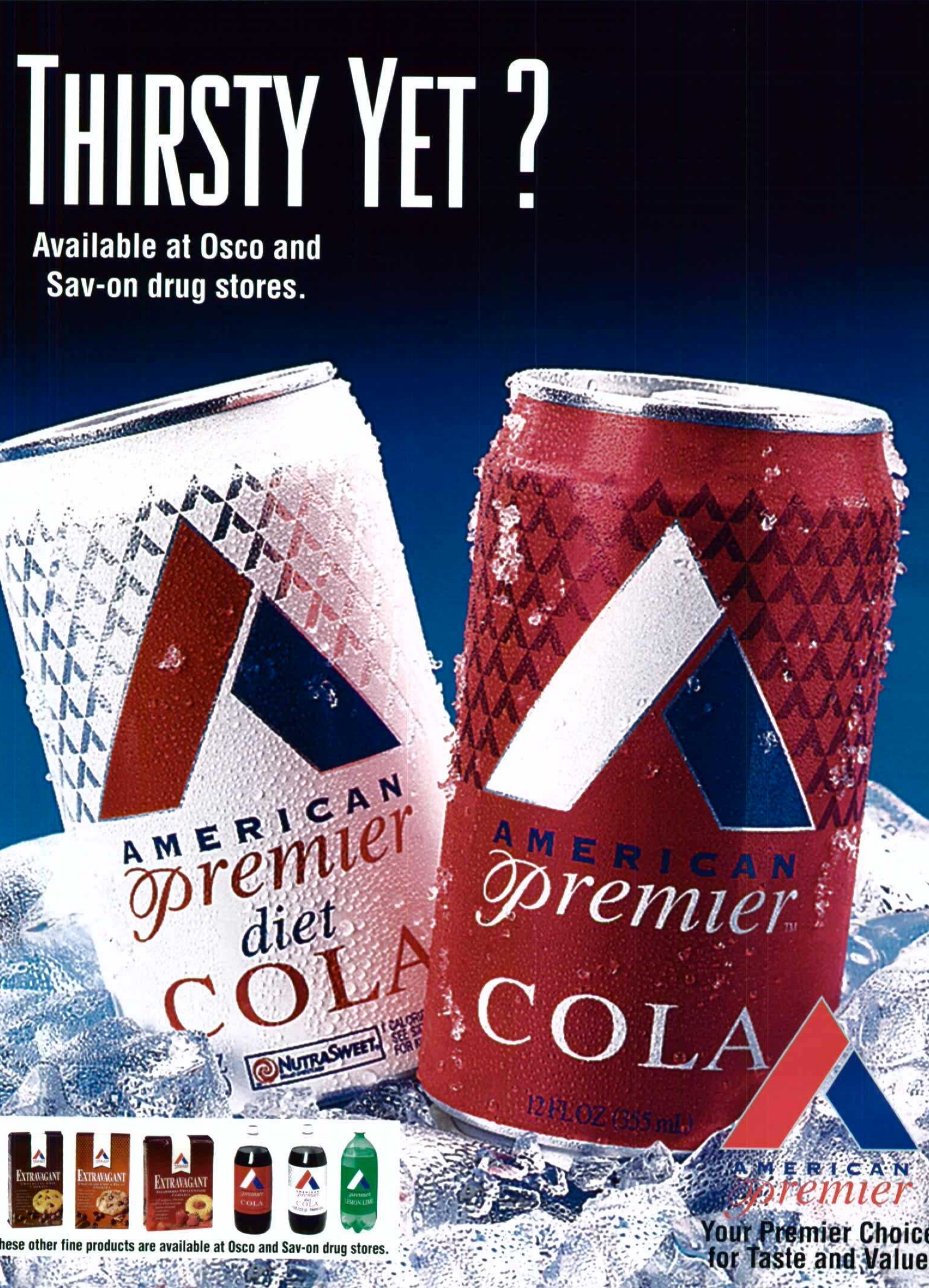
Technology such as this is an important key to successfully operating a mail-order pharmacy. By improving its technology, building new facilities and adding more staff, American Stores hopes to attract even more customers beyond those it serves through its PBM business.

"In Salt Lake City today, our turnaround time for prescriptions is about 48 hours," says Larry Griffin, RxAmerica's vice president of mail services. "Our ultimate goal in both plants is to ship the orders out the same day they're received."

–Tibbett L. Speer

WYATT MCSPADDEN

A new Fort Worth, Tex., mail-order facility will house as many as 400 pharmacy professionals.


THIRSTY YET ?
Available at Osco and Sav-on drug stores.
AMERICAN
premier
diet
COLA
NUTRASWEET
AMERICAN
Premier
COLA
12 FL OZ (355 mL)
EXTRAVAGANT
EXTRAVAGANT
EXTRAVAGANT
COLA
COLA
LEMON LIME
hese other fine products are available at Osco and Sav-on drug stores.
AMERICAN
premier
Your Premier Choice
for Taste and Value

NEW CATEGORY KILLER

HOME HEALTH CARE CENTERS COME FULLY EQUIPPED

American Stores Company pushes into new business that delivers everything from oxygen to wheelchairs to its patients' doorsteps

ALEN MACWEENEY

Osco Home Health Care's Dan Elston, on the move in Bullhead City, Ariz.

"It's not a drug store and it's not a food store. It's totally different from anything we've done before," says Bob Quint, head of home health care operations for American Stores Company, which historically has operated only drug stores and supermarkets.

What Quint is describing is the company's recent venture into a new business category called Home Health Care Centers. The centers target America's aging population and patients who are being released early as hospitals try to cut costs. They offer everything from liquid oxygen ventilators and sleep monitors to wheelchairs and hospital beds, as well as skilled staff, such as respiratory therapists, that provide at-home equipment set-up and related services.

American Stores recently opened its third home health care store, an 8,000 square foot unit, with a 4,000 square foot sales floor, adjacent to an Osco drug store. The store is located in Bullhead City, Arizona, a fast-growing retirement and vacation community situated on the banks of the Colorado River south of Las Vegas. Besides serving three initial markets in Phoenix, Tucson and Bullhead City, the company's home health care centers also have one of the largest contracts in Arizona to cover the home health care needs of 325,000 people insured by Cigna Insurance Company.

Quint says plans include tests this year that would put home health care departments, each approximately 1,500 square feet, in three Osco drug stores. In the near future, the company plans to expand the concept of home health care departments in stores, as well as open a number of stand-alone home health care stores outside of Arizona.

"We've always had stores that carried a few durable medical items, or that would order these items for customers from wholesalers," says John Spellman, a category manager for the health care group, "but over the last year or two we've really turned this into a basic category." Industry-wide, the home health care business is projected to grow at a rate of 12 percent to 15 percent a year for the rest of the decade.

Quint figures American Stores is in a prime position to ride what could be one of the biggest growth surges of the '90s — and beyond. "We're focusing our business not just on products and services, but on quality of life," he explains. "We look at home health care today as very much a fragmented business. We're bringing it together, consolidating all the different entities into one full-service category killer."

–A. Richard Immel

MAXED OUT

BULK SIZES PLEASE FRUGAL SHOPPERS AND BOOST SALES

American Stores Company finds Max Pak a powerful weapon in combating competition from club stores

ALEN MACWEENEY

Who would think any right-minded consumer would rush to pay $25 for the right to shop in a warehouse on the out-skirts of town that only stocked things like double packs of two-pound cereal boxes, three-pound jars of peanut butter, and four-pound bags of frozen chicken breasts?

Of course, as history has proved, anyone who pooh-poohed the idea was mighty wrong. The club-store concept, which started in California in the 1980s, took off and is still flying high, and so is the merchandising of its outrageous-sized packages.

American Stores Company is fighting back against the club stores using its own club-style products, known as Max Pak, which it introduced five years ago in its Lucky food store divisions.

"We decided to offer the same club packs in our own stores to deter our customers from going to club stores," says Allen Zietz, senior vice president, sales and merchandising for Lucky's southern California operations. "Our thinking was if we could give them the same item at the same price, wouldn't the convenience of our locations, and no membership charge, along with all of the other amenities we offered, make us the better of the two choices?"

The answer was yes. Since introducing Max Pak, Lucky has seen the category grow from a handful of dry grocery items to more than 600 jumbo-sized packs that span the dry grocery, frozen food, meat, produce, service deli-bakery and general merchandise sections of the supermarket. Overall, Max Pak sales have tripled in the past five years, and they now account for 6-1/2 percent of total grocery sales.

All American Stores supermarkets in the western U.S. now carry at least one Max Pak aisle, with large sites such as the Super Max Pak stores in San Diego and Las Vegas devoting 10,000 square feet to the category.

Max Pak is growing in the Midwest and East, as well, but for slightly different reasons. "We're finding now that in more and more categories, our major competitor outside the traditional grocery channel isn't a club store but a mass merchandiser," says Bill Donovan, manager of grocery merchandising for Acme stores in Philadelphia. "Our Max Pak presentation is very effective in competing against them."

Because of space limitations, a little more than half of Acme's 193 stores have full Max Pak aisles. Those without aisles carry bulk items to support periodic advertising campaigns, while the newest 60,000-square-foot stores earmark as much as 20 percent of floor space for Max Pak.

Donovan says such sections create shopping "excitement" even for customers who don't walk down the Max Pak aisle. "Just seeing these massive displays of bulk items generates an impression of value in the customer's mind that carries over to the rest of the store."

–A. Richard Immel

ALEN MACWEENEY

Left: The newest Lucky store in Las Vegas, opened in February 1995, boasts 10,000 square feet of space for Max Pak products. Above: Six hundred different jumbo-packs extend even to frozen foods.

INSTANT SALADS BRING NEW CONVENIENCE

New cut and ready line of pre-cut vegetables, kept fresh by modern technology, is snapped up by busy consumers

Caesar salad mixes, salads-for-one, and chop suey mix are among the 40 varieties of cut and ready products.

The fresh produce section would seem to be the last place to find packaged convenience foods in today's supermarket. What's more convenient than a bunch of carrots, or a head of lettuce? But chop up that lettuce with red cabbage, shred the carrots and put it all in a plastic bag, and you have cut and ready, the name that the Acme, Jewel and Lucky food stores have given this hot new category of ready-to-eat salads.

Pre-cut vegetables are a runaway success, spreading from the west coast, where they originated several years ago, to the East. According to the National Association of Fresh Produce Processors, nationwide sales have nearly doubled in each of the past two years. "We think we'll see the same growth this year," says NAFPP spokesperson Edith Garrett.

Russ Ciombor, national produce buyer for American Stores, says the company's Lucky division tripled its cut and ready sales in 1994. In the Midwest and East, where sales are starting to gather steam, Jewel posted a 70 percent gain, and Acme doubled its category sales.

Fueling this growth is increased consumer demand for quick, healthy foods, and a proliferation of items from third party food processors that have exploded the category to more than 40 varieties. "We have Caesar salad mixes, veggie mixes, salads-for-one, mixed baby salad greens, one-pound bags of baby carrots, spinach, chopped red cabbage, chop suey mix, carrot sticks and celery sticks," says Ed Odron, vice president of produce sales and merchandising for Lucky's Northern Division.

The latest offerings include romaine hearts, cauliflower florets, and quick-meal combinations such as broccoli, pasta and sauce in a single package. "It tastes good, it's nutritional and it's convenient," says Odron. "This is one of the hottest things we've got going in produce right now."

Actually, keeping it cool is the secret. Recent improvements in refrigeration technology make it possible to maintain consistent low temperatures and high quality from field to store chilling rack. "I can't remember a single disappointed customer since we've put in cut and ready," says Larry Cox, vice president of produce sales and merchandising for Lucky's Southern division. "That's really saying something when you're talking about a perishable product."

–A. Richard Immel

NATURE'S REMEDIES

Osco and Sav-on drug stores capitalize on the trend by adding such items as garlic, saw palmetto, ginseng and valerian to their product mix

At a time when concern about health care has almost become a national preoccupation, more and more Americans are assuming greater responsibility for their own well-being. They're turning to such self-care techniques as stress reduction, exercise, dieting and healthier foods.

They're also trying herbal compounds that are extracted from various roots, leaves and flowers and sold as dietary supplements. These supplements are being used as alternatives and complements to traditional over-the-counter remedies.

More and more of these products are migrating from health food stores into the mainstream. To take advantage of the trend, drug stores operated by American Stores Company have added the more popular herbal-supplement items to their shelves, including ginseng, echinacea, valerian, evening primrose oil, feverfew, saw palmetto, and garlic.

Sav-on and Osco sales of health foods, sports nutrition and herbal supplements totaled $16 million last year, double the 1993 level, says Brent Keil, the drug stores' director of health care products.

"We think we're sitting on the edge of a tremendous opportunity." –Brent Keil

That's still a tiny fraction of the drug chains' revenues from all over-the-counter products, which hit $636 million last year, but Keil expects sales of the new items to grow even faster in the years to come. "This category has come out of nowhere and has experienced explosive growth," he says. "We think we're sitting on the edge of a tremendous opportunity."

Herbal supplements contain active natural compounds that are believed to relieve a variety of health symptoms. For example, certain forms of standardized garlic are being used by consumers to help lower cholesterol levels. Ginseng root is believed to enhance the bodily properties that reduce stress and fatigue, and valerian, another root-based herb, is thought by some to possess sedative properties. And echinacea is rapidly becoming the supplement of choice to help avoid the onset of the common cold.

Herbal compounds have long been accepted in Europe and parts of Asia. Acceptance by the U.S. medical community is gaining, helped by controlled clinical studies evaluating their effectiveness and by recent legislation. The Federal Dietary Supplement, Health and Education Act, passed in 1994, allows manufacturers of herbal-supplement products to link their usefulness to various bodily functions and structures, but stops short of permitting claims of health benefits.

Through a company called Health Media of America, Robert Garrison, a pharmacist and consultant to American Stores, is helping the company's Osco and Sav-on drug chains set up informational resources to update pharmacists and customers on the latest herbal clinical studies. "Herbal supplements could become a multi-billion dollar market in the next five years," he predicts.

–A. Richard Immel

Multitudes trust Marcella

If you're looking for herbal medicines or health foods in the Southwest, the Osco Drug store in Mesa, Ariz., is the place to go and Marcella McCarthy is the person to see.

Marcella's department is the largest of its kind in any Osco or Sav-On drug store in the nation. It also offers one of the most complete selections in Arizona, a virtual cornucopia of health food items and supplements that includes raw milk from a licensed dairy, a full selection of medicinal herbs, a line of frozen vegetarian dinners and hot dogs without nitrates. The department stocks unrefined, brown and raw sugars, and organically grown grains. Top selling products include aloe vera juice, raw honey from Idaho and five brands of natural vitamins.

For 15 years, Marcella has been serving this sprawling retirement community near Phoenix. Repeat customers come from other Arizona communities and from as far away as Colorado and Texas. What she offers her loyal following is the ultimate in customer service: "I will not sell someone something I wouldn't use myself," she says. "When something new comes out, I do my own research before I'll put it on the shelves."

A trained nutritionist, Marcella reads the medical literature, talks to experts and gathers whatever other information she can get her hands on before giving the product her stamp of approval.

–A.R.I.

JOHN HARDING


Coca-Cola
12 FL OZ (355 mL)
AMERICAN
premier
COLA
12 FL OZ (355 mL)
COKE CLASSIC 6/12 OZ C
72 FL
CES
060 E 05-95
$1.99
AMER PREM COLA
060 05 95

SHIFTING LOYALTIES

PRIVATE BRANDS BREAK NEW GROUND

American Stores Company expands house labels to match a growing consumer trend

Are national brands going the way of the dinosaur? Probably not, but as nationally branded products continue to lose ground to private brands, food marketing experts think they're seeing a major shift in consumer buying habits.

In the past, shoppers turned to house brands during tough times and resumed buying "name brands" when prosperity returned. But that didn't happen after the last recession.

American Stores Company is taking steps to capitalize on this new trend. Among other things, it's set a goal to increase its private label market share in the next five years to 25 percent of total sales from a range of 16 to 18 percent.

Why are private labels so popular? "Part of it is due to better products and the advent of premium quality," says Wendy Wagner, a spokesperson for the Private Label Manufacturers Association. "Private labels in general have improved their quality since the last recession. They're packaged more attractively and there's more product innovation," she says.

The Association reports dollar volume of supermarket store brands rose to a record $30 billion in 1993, or 14.9 percent of total food store market share. Preliminary figures indicate private brands continued to gain during 1994 in large retail food chains.

A big winner for American Stores has been the premium quality President's Choice label. All three food operations — Lucky, Jewel and Acme — sell President's Choice cookies and soda in all their stores and 100 to 200 other President's Choice food items.

Premium private labels like President's Choice and American Premier, recently introduced in the company's drug stores, offer customers superior products and the stores higher margins. Because a customer can only buy President's Choice in an American Stores outlet, based on the company's geographic exclusive marketing agreement, they also build repeat business. "If you like the product, you'll come back to one of our stores because you can't get it anyplace else in our market area," explains Ron Carlson, vice president, private label. "Of course, while you're there, we also hope you'll buy other things and become a regular customer."

Paul Kennedy, who has the newly created job of director for private label sales and marketing, is working to boost private brand promotions via the weekly advertising circulars supermarkets already distribute. "We're putting together merchandising programs very similar to those for the national brands," he says.

One way is to expand the number of house brands included in the circulars to create more of a "theme" tie-in with the local stores. "For example, we have many corporate brand products that could tie into an Italian theme," he says. This, in turn, would lead to more promotional display space in stores. Ultimately, higher sales mean reduced purchasing costs and better margins.

In the East, Acme has reintroduced Lancaster Brand meats, a 75-year-old private label. The program has been so successful that Lancaster now accounts for nearly 60 percent of Acme meat sales. The line includes turkey and lean, pre-cooked semi-boneless hams that can be heated quickly in a microwave. "In 1995 we'll be introducing Lancaster Brand chicken," says Jim Horn, Acme's executive vice president and general manager. "These are going to be upscale, high quality items."

Dick Fredericksen, executive vice president, national buying and logistics for American Stores, notes the company's strategy is to market three private label groups:

• Premium products under the President's Choice label in food stores and American Premier in the drug stores. These are perceived

DONALD MILLER

Value Wise is the commodity grade line of private label products offered by the company.

Increasingly, private label products such as soft drinks are winning the head-to-head fight with brand name counterparts.

KAREN HALVERSON

ALEN MACWEENEY

Private brands, such as those in this Acme store, build repeat business for the store and save shoppers as much as 30 percent.

American Premier brings upscale house brand to the drug store

It works in the supermarket, so why not in the drug store?

Following the success of the President's Choice line of premium private label cookies and soda in American Stores' food stores, the company's Osco and Sav-on drug stores have unveiled their own premium house brand for similar products called American Premier.

"Our definition of the premium category is that it must be a superior product in formulation, fragrance or taste to a nationally advertised brand," explains Ron Carlson, vice president private label.

Initially, the American Premier brand is being used on cookies and soda, similar to President's Choice products. However, Carlson says the label will expand to other food products such as flavored waters and teas, as well as fruit juices, snacks, and even a premium line of wine and liquor.

In addition, the drug stores will use the American Premier brand for upscale skin care, hair care and bath products. This would be the company's first premium house brand in a non-food category, and one of the first anywhere. "We're leading the drug store industry in developing this," says Carlson, who is optimistic that American Premier will do in drug stores what President's Choice has done in supermarkets.

–A.R.I.

to be superior to the leading national brand products, at generally the same or lower prices.

• "Equal-to" products that carry the Acme, Jewel, and Lady Lee store label in food stores, and the Osco brand in drug stores. These products sell for 10 to 30 percent less than comparable national brands.

• Commodity grade items called Value Wise that are the remnants of the generic, "serviceable" quality products.

Putting the company's private label program in perspective, Fredericksen notes that while it's important to use private label marketing to boost sales and differentiate American Stores from its competitors, it's also important not to neglect consumer attitudes. "We want private label to be an important part of our marketing program, but we also want to be out there with the brands and the products our customers want and expect to find."

–A. Richard Immel

THE KEY TO DRIVING DOWN SPENDING.

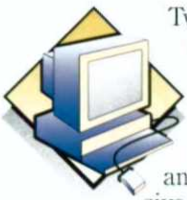
Now you can save more every day on your grocery bills without driving all over town. Just shop at Lucky. With thousands of Key Buys at Lucky Stores, you can save up to 35% on all kinds of items you need every day! Some stores offer low prices on some things, and higher prices on others. Not at Lucky. You'll save time, save money and get better prices overall on everything you need. Shop at Lucky. We're the low price leader every day, because we've got the key to driving down spending.

Lucky®

DIGITIZING DATA

AMERICAN STORES LEAPS INTO THE INFORMATION AGE

New state-of-the-art computers and software will provide the company its first nationally integrated information system, designed to support new ways of doing business



Two years ago, CEO Victor L. Lund pledged to usher American Stores Company into the information age. He envisioned implementing an ambitious, comprehensive, internal state-of-the-art technical revolution. It would streamline and rationalize the company's fragmented technologies, and roll them into a powerful, competitive tool for the future.

He wasn't kidding. And Stan Whitcomb can attest to that.

Whitcomb, senior vice president of information technology, runs the 650-person information technology organization in Salt Lake City charged with executing the company's high-tech master plan. He can hardly catch his breath. "The activity in this area of the company is off the charts," he says.

No area of the company has gone untouched by the frenetic effort. For two years the company has been working with technical partner British American Consulting Group (BACG) to create a software systems architecture for company-wide technology applications. The plan is in the final stages of development and will be completed this calendar year.

New systems at the company's warehouses are advancing quickly, with eight facilities already on-line and 12 more slated for completion this year (see story page 47). Human resource functions are being automated; it's the first time HR information (other than payroll) in any division will have been computerized.

JOHN HARDING

Above: Ken Brame (left), Stan Whitcomb and Frank Eckstein are among American Stores' information technology wizards. Right: The company dishes out the word nationwide to its 1,600 stores through this Murray, Utah, satellite uplink hub.

Buying on a company-wide scale, something the company has never been able to do before, will mean lower prices for shoppers.

Currently, a state-of-the-art scale management system is being rolled out in deli, meat, seafood and bakery departments across the country. It will allow buyers to download price, ingredient and nutritional information to stores' scales from a central location. Currently, each store programs the devices separately. With centralized data input, prices and information will be more reliable, protecting both consumers and the stores.

To accomplish these and other operations, key decisions about which leading-edge hardware and software will best suit the company's data processing challenges have been made. Acquisition of the systems and customization of software is well under way. Outmoded and redundant technologies are being quickly phased out. For example, divisions formerly used different data security systems, making information transfer among them impossible. Now every store is on-line with the same system.

Whitcomb's group also has consolidated the company's six data centers into one in Dublin, Calif., an achievement notable partly because they finished the complex job in a mere six months.

The new technology will be an important cornerstone in re-engineering the company's entire supply chain, an immense effort now under way. Using existing IBM mainframe computers, which run newly developed transaction-oriented software, the team is feverishly bringing pilot projects on-line as soon as they are ready. "We are implementing parts of our grand scheme as we can, so that at first, we will have an 80-percent solution, and so on, until we are up and running 100 percent," Whitcomb explains.

Under one such 80-percent solution, company-wide buying of non-grocery and seasonal items, from school notebook paper to pet flea collars, has been consolidated in the drug store divisions. "We determined they were more experienced at purchasing these items, so we empowered them to handle the job for the entire company," says Whitcomb.

Sales data, captured by existing cash register scanners, are funneled into a new, so-called "data warehouse." From there, the data are filtered back to buyers, giving them powerful ammunition with which to negotiate lower prices from vendors. Buying on a company-wide scale, something the company has never been able to do before, will mean lower prices for shoppers. Initially restricted to non-grocery items, the plan will be expanded to include all goods within the next three years.

The company, in conjunction with its U.S. Satellite Corporation subsidiary, also operates its own two-way data transmission network via satellite that links all the company's retail business locations. The service covers a wide range of applications such as check and credit card verification transactions, point-of-sale and pricing

KAREN HALVERSON


KAREN HALVERSON

Dennis Ceragioli helps staff the company's Dublin, Calif., data center into which six other data units were consolidated.

update information.

Additionally, business video conferencing services are piped into all the stores using a satellite uplink supplied by U.S. Satellite.

An even bigger competitive weapon is likely to be a strategy to recover and use sales data to generate sales increases. Still largely in its infancy, this sales-side project, using the latest "parallel-processing" computer technologies, will tally, analyze and extrapolate customer and sales information, a technique known as "data mining."

Other food and drug retailers are seizing this new sales and marketing tool, but American Stores Company is ahead of the pack. It started tests in March, and the program is expected to be fully deployed in two to three years. "In the past we did a mediocre job of utilizing sales data," Whitcomb concedes. "With data mining, we believe we will capture information on our sales and customers that will have tremendous value."

The drug units already have an inkling of the benefits. Last year, Sav-On and Osco stores tested the concept. The results (see inset story) convinced executives that full-scale data mining should produce dazzling results.

Another piece of good news is that the drug unit's proven technology can be translated quickly to other company units. By virtue of its technical know-how, Whitcomb's group succeeded in transferring an earlier version of the parallel-processing technology to the company's new AT&T servers. The cost was only $600,000, a fraction of the cost of developing the capability with older technologies. The grocery divisions' benefit from the technology transfer hasn't yet been calculated, but Whitcomb predicts "a big bang for the buck."

–Nancy Rutter

Mining the store

Harvesting computerized sales data and turning it into increased sales is the promise of so-called data-mining tools. Just how powerful that promise is was revealed in a test conducted at American Stores' two drug-store units, Osco and Sav-on.

Using an existing configuration of sophisticated computers, the stores did a "market-basket" analysis of consumers who responded to separate advertisements for beer and baby diapers. Gathering information obtained from the check-out scanners at participating stores, they were able to determine what other things shoppers bought besides the advertised items.

They discovered consumers bought only beer when they responded to the beer ads. However, the diaper shoppers also filled their baskets with other items, including a specific brand of baby wipes and health and beauty products, particularly shampoo.

The stores have used the results to increase the effectiveness of their promotions, advertising and product displays. "Driven by the good price on beer and diapers, it's a tremendous opportunity to take advantage of the high customer count to sell related products to targeted customers," says Arlyn White, executive vice president, marketing for the drug stores.

–N.R.

FUTURISTIC FORKLIFTS

ON-LINE WAREHOUSES OFFER GLIMPSE OF FUTURE

American Stores Company aims to computerize all its distribution centers to speed the flow of products to stores and improve inventory management

If you want to know what the computerized future will look like at American Stores Company, drop by its 870,918-square-foot on-line grocery warehouse in Vacaville, Calif., and climb aboard a forklift.

Sound crazy? Maybe, but eight American Stores warehouses incorporate the latest in facility management software in a system that runs as smooth as silk — directly from the warehouse floor.

This high-tech look comes from Dallas Systems Corp.'s software, an integrated warehouse control, management, and scheduling program. Chosen three years ago, Dallas installations began soon after. Today, eight of the company's warehouses are up and running. By the end of the calendar year, another 12 will be fully operational.

The warehouse program showcases technology at its best. Prior to computerization, warehousing of merchandise was sometimes haphazard and retrieving goods to fill orders was time consuming and frustrating. Loss and breakage problems were common. Morale among warehouse employees sometimes suffered.

But no more. Now, as goods are received at the warehouse dock, workers enter data directly into the sophisticated system. The software then tells forklift operators where space is available to store the arriving merchandise. The information comes from a computer screen on the forklift itself — the operator literally works throughout the day storing goods as directed by the system, via wireless communications technology built into his machine. Thus, pallets aren't lost, and neither is time nor money.

The warehouse program showcases technology at its best.

Order fulfillment is similarly directed, so that the right merchandise is shipped to stores faster. Dallas even controls a pallet's weight distribution, protecting against merchandise crushing and breaking. Moreover, accidents and injuries have been reduced as a result of these more rational work methods.

And there's more. The system has allowed American Stores to install engineered work standards for the first time. Employees are provided an instant critique of their performance, which helps them become more efficient. If they perform above standard, they earn incentive pay or time off.

"The general mental well-being of warehouse employees is one of the best results," says Gary B. Dahl, senior vice president of logistics. "They take more pride in their work by knowing exactly how they have performed. That's obviously a valuable factor. Additionally, cost containment was one of our main goals for this technology and we've been successful in achieving it."

–Nancy Rutter

KAREN HALVERSON

The comings and goings of forklift operator Joao Vieira at the Vacaville, Calif., warehouse are guided by an on-board computer.

ON THE EDGE OF A NEW HORIZON

In a cluttered retail world

where few frontiers remain,

American Stores Company stands

at the edge of a new opportunity.

Home health care products and services.

An industry with a multi-billion

dollar potential.

Growing at a rapid rate.

Serving the home health care needs of

consumers. Their families.

And their care providers.

It's an industry of vast potential.

Unexplored. Without a leader.

Until now.

Introducing Osco Home Health Care.

An exciting, new frontier for

American Stores Company.

LINKING UP

RE-ENGINEERING THE SUPPLY CHAIN

The company's Delta Group is tearing down old corporate barriers and building a continuous logistics highway to quickly supply existing businesses and support new ones

The future of American Stores Company is pinned on the pale blue walls of a conference room outside Salt Lake City. There, in a display as dramatic as the program it represents, a special team of employees maps out a strategy that ultimately could determine the company's fate.

First-time visitors to this "Blue Room," as it's known, inevitably gasp with amazement. Its walls literally are covered with hundreds of small slips of paper. Collectively they expose the guts of this $18 billion company, dissected into its most basic elements. "Receive inventory" and "visual check" read two of the tiny pieces of the enormous diagram.

The creators of this work belong to what's known as the Delta Group, 120 people chosen from among American Stores' best and brightest employees. Half of them are skilled in every imaginable aspect of retail operations from procurement to merchandising; the balance know computer systems and software inside out.

Their job is to redesign the company's product supply chain, whose various links are painstakingly depicted on the Blue Room's walls and involve tens of thousands of people, places, products and procedures. The goal is to transform it from a set of disparate functions operating disjointedly in each of the company's food and drug store chains into a nationally managed network that efficiently ties together merchandising, buying, warehousing, inventory control, and distribution for the entire company.

The reorganization will be nothing short of revolutionary. In the past, buyers, warehouse staffs, and store managers in the company's different food and drug store divisions have always operated in their own little worlds — what American Stores officials call "silos" because of the image of narrow confines conjured up. Now those silo walls are tumbling down.

Ideally, when Delta is finished, the new system will run so smoothly that when a store cashier anywhere in the American Stores universe runs a customer's purchase across an electronic check-out scanner, others along the chain — warehouse workers, drivers, buyers, maybe even outside vendors —

JOHN HARDING

Delta strategy manager Pam Powell keeps visions of American Stores' new supply chain pinned to the wall.

Delta navigator

As a teenager, Pam Powell worked afternoons as a Lucky Stores cashier. Now, 20-some years later, she's vice president and strategy manager for Delta, helping direct the company's historic change.

Who would have thought? "None of us have ever worked on a project of this size before," she says, modestly down-playing her achievements.

She realized the moment the job was offered that projects like this don't come along often. However, the native Californian faced a challenge when it came to moving — convincing her husband and two children to leave California.

How'd she do it? "I'm a great salesperson and I just sold it to them," she says with a laugh.

That was last summer. Today, her family has no regrets about the move — or succumbing to the former cashier's sales pitch.

–T.L.S.

Delta's Peter Schenk and Russ Lord help sort out the intricacies of product logistics.

JOHN HARDING

are alerted so they can act accordingly.

The bottom line is to get goods from manufacturers' and vendors' shipping docks to store shelves and customers' shopping baskets faster and cheaper than ever before.

"Our customers never see this 'backstage' part of our operations, but it's absolutely critical if we're to provide them the products they want and need at competitive prices," says David L. Maher, American Stores' chief operating officer.

Delta's assignment is fraught with urgency because of growing competitive pressures from a host of different directions such as convenience and warehouse stores, as well as fast-changing customer needs engendered by new lifestyles. A state-of-the-art supply chain not only can shave costs, but also responds quickly to new retailing formats when customer tastes change.

"Our mission here is one of survival," says Pam Powell, vice president and strategy manager for Delta. "If we don't reorganize the supply chain, we won't be here for the future."

The Delta-led revolution began last summer. Many corporate revolutions are invisible, but not this one. Team members swarmed into Salt Lake City much like frontier settlers did more than a century ago. Instead of covered wagons, they brought U-Hauls and sport vehicles, each laden with clothes, furniture, housewares — not to mention spouses, kids and pets.

"This is the chance of a lifetime to have so much impact on the business," says one manager enthusiastically.

As recent newcomers, everyone bonded quickly, just as American Stores hoped.

> **"Our mission here is one of survival. If we don't reorganize the supply chain, we won't be here for the future."**
>
> **–Pam Powell**

Their camaraderie was critical to the company, because it needed them to function smoothly and efficiently as a closely knit team from the day they arrived. Stationed miles away from corporate headquarters, they felt free to come up with their own work culture — casual dress, no rank — and to let their creative juices flow.

"We're like a giant petri dish," says team member Dave Schoenbeck, a 20-year American Stores veteran and an expert in store operations.

As team members focused on the task ahead, they figuratively began to cut the company's operations into the paper bits that would get pinned to the Blue Room walls, making it easier to visualize — and also restructure — the different business processes and systems involved.

It became apparent from this exercise they needed to organize themselves into six different teams, ranging from such functions as procurement and logistics to merchandising and finance and administration, each working on different aspects of the project, yet all working side by side.

The teams dissected their company with painstaking care, carving it into many components, which then were thrust under a microscope in a series of problem-solving workshops. Representatives of every team and operating division collaborated in each workshop. For example, when the subject was "store receiving," buyers and warehouse staffers, who had never before been involved in that activity, tackled the topic right along with store operators.

"This was not about 'well, we've always done it this way so it must be right.' It was about 'well, we've always done it this way, but is it the best way?'" says Teresa Beck, chief financial officer and a member of the company's principal strategy team.

Among the first traditions jettisoned were long-standing rivalries among Lucky, Jewel, and the other divisions that sometimes prompted them to run their operations differently from each other simply for the sake

of being different.

Also tossed out was the notion that different departments should operate only inside their own "silos" for their own benefit rather than that of the entire company. For instance, buyers used to procure products solely on the basis of price. If buying more meant getting a lower price per item, that's what they did. Often the result was big quantities that

"Maybe change will never end. You don't re-engineer and then stop changing."
–James R. Clark

stores couldn't sell, so any savings were wiped out by costs of storing the surplus.

"In my entire career, I never heard a buyer say, 'I'm working on this project and I need advice from the warehouse or store people,'" marvels Neil Stacey, leader of the team that focuses on product purchasing.

Stacey is working on eliminating another inefficiency: supply trucks bound for Lucky and Sav-on stores that literally pass each other going in opposite directions as they deliver the same products from different warehouses just a few miles apart. Delta is re-engineering that system so the same warehouses and trucks serve all nearby stores.

Most American Stores employees remain out of the Delta loop, but that will change before too long. The team is committed to achieving 28 strategic milestones between now and mid-1997. Each is aimed at cutting costs in one or more of the supply chain links pinned on the Blue Room's walls.

What then of the Delta Group? Perhaps members will return to their divisions, spreading their cooperative, can-do spirit. Or they could remain in Salt Lake City to tackle new challenges. "Maybe change will never end," says James R. Clark, American Stores' chief planning officer. "You don't re-engineer and then stop changing."

–Tibbett L. Speer

Delta blows snow problem away

Linked by their zest for re-engineering, many Delta Team members shared something else when they moved to Salt Lake City: they were clueless about how to deal with snow.

Many came from California where snow is something for holiday fun in the mountains. Patrick Jones, a former Lucky Stores business analyst, was among the Golden State natives who were nervous about their first Utah winter.

In true Delta fashion, Jones didn't sit back and let the flakes fall where they may. Wielding his retailing expertise, he successfully orchestrated a volume snowblower buy for 20-plus colleagues that included an attractive discount off the $545 list price.

"They look like rototillers," says Jones, still grappling with his new identity as a person who needs a machine that moves snow.

As it turned out, the snowblower buy was timely. In late fall, one of the earliest snowfalls on record buried Salt Lake City. Co-workers stopped Jones in the halls to offer their gratitude.

Quality products at reasonable prices, happy customers — all proud traditions at American Stores. *–T.L.S.*

Much of the future look of the company's organization rests in the hands of the 120 members of the Delta Group.

KAREN HALVERSON

DRAWING THE LINE

PUTTING THE SQUEEZE ON CONSTRUCTION COSTS

American Stores Company finds big savings by slashing the number of design options for building and remodeling its stores

KAREN HALVERSON

American Stores Company operates its own mill to produce store fixtures such as those pictured here.

American Stores Company learned an important lesson this year.

It can get by on a fraction of the 3,500 different styles of store fixtures it uses in remodeling and building its food and drug units. It did just that in 1994, and pocketed $20 million in savings on capital expenditures.

This year it will use the lesson to even greater advantage, aiming to save even more.

"This doesn't mean every store is going to look the same," says Stuart King, senior vice president, design and construction. "It might mean every store is built with similar engineering and systems, and that we buy from one or two manufacturers rather than several."

Squeezing out costs and generating savings that can be passed on to customers is the name of the game in retailing these days, as competitive pressures mount from every direction. American Stores is trying to trim costs by doing away with its multiple operating cultures and behaving as a single entity, especially when it comes to such "backstage" functions as product procurement, distribution and store development.

From a design standpoint, that means separate buyers from the various divisions will no longer make fixture selections. Instead, the job will be handled at corporate headquarters.

JOHN HARDING

Stuart King (left) and Scott Moore are among those helping shave store construction costs to the bone.

"The constant speech we gave to vendors was we want to buy your product, not your organizational inefficiencies. American Stores is re-engineering, and we want to team with vendors who have the same vision we do." –Stuart King

Last year was the first attempt at doing things this way. Nearly all contract negotiations and paperwork for all company store fixture purchases took place in one Salt Lake City office. A result was that buyers packed more negotiating clout. They bought in such large volumes that vendors gave them discounts ranging as high as 20 percent on fixtures and equipment, such as ovens, slicers, stainless steel tables, display racks, and the host of other hardware and appliances it takes to build or remodel a store.

"The constant speech we gave to vendors was we want to buy your product, not your organizational inefficiencies. American Stores is re-engineering, and we want to team with vendors who have the same vision we do," says King.

American Stores hasn't just limited the styles of things like ovens and display racks. It also has cut the number of different store designs from 30 to five. Lighting, refrigeration, roofing specifications — all are being standardized.

Among other things, that allows executives for the first time to accurately compare construction and remodeling costs across the different divisions and thus learn how the practices of one could benefit the others. If the company builds a store on the east coast that costs more per square foot than a new store out west, the company can see how to lower costs of the one by adopting the techniques of the other, King explains.

It may be as long as eight years before some stores will benefit from the new design practices. That's roughly how often, on average, a store expands or remodels. Management of store construction work will continue to be overseen by the local construction team. That's because such work depends on close connections with general contractors in the area where the work is done. Those relationships are best handled by people on the scene, rather than from Salt Lake City.

"For the future, we will continue to drive our costs down, but at the same time, we'll stay flexible and maintain high quality," King says.

–Tibbett L. Speer

KAREN HALVERSON

Store fixtures from the company's plant carry a price tag well below those from outside suppliers.

MAKING SURE THE NUMBERS ADD UP

Consolidated accounting center provides consistent reporting format and eases accounting gridlock

American Stores Company, looking to boost efficiency and cut costs, is trying a common sense solution. It's eliminating duplication in its accounting operation.

Instead of one accounting department for the whole company, it operated a half dozen or so, a legacy of when American Stores was run as a financial holding company. Every time it bought a new food or drug store chain, another accounting department came with the deal — and so did another computer system and another format for reporting operating information.

The result was a virtual accounting gridlock where accountants and computer systems in one part of the American Stores family couldn't relate to those anywhere else, even those in the same industry.

"Management had no simple way of evaluating comparable financial information or statistics," recalls Jerry Hosler, vice president and controller of retail accounting. "Instead, we spent too much time identifying and adjusting for differences between the divisions, when we should have been providing meaningful, relevant information."

The non-comparable financial data had some far-reaching impact. For example, a company-wide plan to award bonuses to top-performing departments had to be scrapped. With no common definition of departments from division to division, there was no way to compare them to tell which was doing the best job.

Now, those kinds of problems are gone, thanks to a single operation that uses common accounting systems and reporting formats coast to coast.

The Lucky accounting operations relocated to Phoenix in 1992 and were later joined by the 11 Jewel Osco New Mexico stores and by Super Saver. Osco and Sav-on migrated to the Phoenix facility in late 1994. All of the remaining divisions will follow in 1995. American Stores expects to recoup the cost of consolidating through reduced operating expense.

JOHN HARDING

Tom Lauritzen (L) and Tom Prettyman run the consolidated accounting function in Phoenix, Az.

JOHN HARDING

Jim Schickling chose early retirement over a transfer, but willingly spent weeks in Phoenix helping with the Acme accounting transition.

While simple in concept, the physical union is complex. Tom Prettyman, vice president, central services, shakes his head in amazement. "Our people have expanded the Phoenix facility, installed computer equipment, hired, trained and relocated staff — all in five months."

No one questions that merging the different areas is the right thing to do. But as with many mergers, some employees have been laid off. Others have had to bid farewell to friends and neighbors to follow their jobs to Phoenix. Those who stayed behind say they understand the need to reorganize. "It's been both heartbreaking and heartwarming," Prettyman says.

Jim Schickling, Acme Markets' director of accounts payable and a company stalwart for more than 30 years, took early retirement rather than move. Yet he has worked untiringly to help relocate his old operation to Phoenix, spending weeks away from his Philadelphia home to get the job done, Prettyman relates.

The Phoenix payroll/personnel records departments process about 40 percent of the company's payroll transactions. Tom Lauritzen, vice president, retail accounting, who developed the Phoenix Center for Lucky in 1992, is consolidating the remaining payroll departments into Phoenix, utilizing modern client server technology. Eventually, all 118,000 employees will receive their paychecks from a single payroll system operated in Phoenix.

Company-wide financial reports will be prepared at corporate headquarters in Salt Lake City, using the same computer system that will link all divisions and operations. "All of this is going to help us to be a very efficient company," says Hosler.

–Tibbett L. Speer

The following consolidated selected financial data of the Company for the last five years should be read in conjunction with the consolidated financial statements and related notes appearing on pages 63 to 76.

Comparisons of the results of operations between fiscal years 1990 to 1994 are rendered difficult due to the Company's disposition of stores. These include the disposition of 45 Acme Markets stores in the fourth quarter of 1994, the 33-store Star Market food division in the third quarter of 1994, 74 Jewel Osco combination food and drug stores in the first quarter of 1992, 145 Alpha Beta Company stores and 59 Osco Drug stores in the second and third quarters of 1991 and the 44-store Buttrey Food and Drug division in the third quarter of 1990. These disposed of stores generated sales in the amounts of $0.8 billion, $1.2 billion, $1.4 billion, $3.4 billion and $5.1 billion in 1994, 1993, 1992, 1991 and 1990, respectively.

(In thousands of dollars, except per share data)	1994	1993	1992	1991	1990
Sales	**$18,355,126**	**$18,763,439**	**$19,051,180**	**$20,822,956**	**$22,155,530**
Earnings before extraordinary item and cumulative effect of a change in accounting principle	$345,184	$262,090	$207,466	$240,016	$190,068
Extraordinary item – early retirement of debt – net of taxes		(15,000)			
Cumulative effect of a change in accounting principle – Postretirement health care benefits – net of taxes				(40,734)	
Net earnings	**$345,184**	**$247,090**	**$207,466**	**$199,282**	**$190,068**
Average shares outstanding	142,767	142,202	140,314	138,364	138,044
Earnings per share before extraordinary item and cumulative effect of a change in accounting principle	$2.42	$1.85	$1.48	$1.73	$1.38
Extraordinary item		(.11)			
Cumulative effect of a change in accounting principle – Postretirement health care benefits – net of taxes				(.29)	
Net earnings per share	**$2.42**	**$1.74**	**$1.48**	**$1.44**	**$1.38**
Fully diluted earnings per share	$2.33	$1.69	$1.44	$1.41	N/A
Cash dividends declared per share	$.48	$.40	$.36	$.32	$.28
Total assets at year-end	$7,031,566	$6,927,434	$6,763,793	$7,198,050	$7,511,771
Total debt and obligations under capital leases at year-end	$2,205,291	$2,167,999	$2,248,316	$2,798,578	$3,193,707
Total capital expenditures [1]	$565,313	$652,928	$476,617	$378,593	$374,007
Store count [2]	1,597	1,695	1,672	1,631	1,848
Selling area square footage [3]	31,179	32,727	32,320	34,428	38,055

[1] *Includes present value of new leases.*
[2] *Includes both the food and drug sides of Jewel Osco combination stores which are counted as separate stores.*
[3] *Selling area square footage (in thousands) was 74% of total retail square footage in 1994.*

Note: The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1994", "1993", "1992", "1991" and "1990" represent the fiscal years ended January 28, 1995, January 29, 1994, January 30, 1993, February 1, 1992 and February 2, 1991, respectively.

Results of Operations

Total sales and the percentage change in comparable store sales for the 1994, 1993 and 1992 fiscal years are set forth in the tables below. The decrease in total sales is primarily attributable to the disposition of the 33-store Star Market food division in the third quarter of 1994, 45 Acme Markets stores in the fourth quarter of 1994 and 74 Jewel Osco combination food and drug stores in the first quarter of 1992. Sales from continuing operations decreased 0.3% in 1994, 0.2% in 1993 and increased 0.8% in 1992. Sales at comparable stores (stores that have been open at least one year, including replacement stores and excluding Super Saver, the Company's new warehouse-type operation) increased 0.5% in 1994 and decreased 0.7% in 1993 and 0.5% in 1992.

Total Sales

(In millions of dollars)	1994	1993	1992
Eastern Food Operations	$ 5,957	$ 6,052	$ 6,200
Western Food Operations	7,002	7,183	7,135
Drug Store Operations	4,544	4,322	4,002
Other	12	12	270
Continuing operations	17,515	17,569	17,607
Disposed of operations	840	1,194	1,444
Total sales	**$18,355**	**$18,763**	**$19,051**

Comparable Store Sales

(Percent change)	1994	1993	1992
Eastern Food Operations	0.7%	(1.5)%	(0.7)%
Western Food Operations	(1.8)	(1.9)	(2.3)
Drug Store Operations	4.2	2.6	3.0
Total	**0.5%**	**(0.7)%**	**(0.5)%**

Gross profit as a percent of sales increased to 26.8% in 1994, compared to 26.4% in 1993 and 26.1% in 1992. In 1994 the gross profit percentage increased in the eastern food, western food and drug store operations, primarily due to improvements in the mix of products sold, promotional strategies and shrink control. These increases are net of the lower gross profit realized by Super Saver. Warehouse-type operations like Super Saver generate lower gross profit as a percent of sales than traditional food and drug store formats. The increase in 1993 over 1992 was the result of slight improvements in the eastern and western food operations. These increases more than offset the decreases in gross profit percentage in the drug store operations primarily within the prescription drug category and third-party payor plans. The annual pre-tax LIFO charge to earnings amounted to $8.2 million in 1994, $7.2 million in 1993 and $16.5 million in 1992. Lower inflation, particularly in the drug stores, and changes in the mix of inventory have influenced the LIFO calculation over the past three years.

Operating expense as a percent of sales increased to 23.3% in 1994, compared to 23.0% in 1993 and 22.8% in 1992. Operating expense in 1994 included charges of $23.9 million for centralization of administrative functions, including information technology and accounting. Operating expenses in 1994 were also impacted by expenses for the consolidation of the computer data centers and a voluntary severance program initiated at Acme Markets, totaling $11.2 million. Operating expense in 1993 included $7.6 million of expenses for the settlement of meat products litigation in California and severance programs stemming from the Company's expense reduction programs ($3.4 million eastern food, $3.5 million western food, $0.7 million drug stores). In addition, operating expenses in 1992 included $17.1 million in costs related to consolidation of administrative functions at the Company's eastern food operations.

Total operating profit for the last three fiscal years is set forth in the table below. Operating profit was 3.5% of sales in 1994, 3.4% of sales in 1993 and 3.3% of sales in 1992. Operating profit from continuing operations increased 4.4% in 1994, 0.8% in 1993 and 5.4% in 1992. The 1994 operating profit in the western food operations was negatively impacted by losses incurred by Super Saver. As the Company continues to develop and build its new warehouse-type operation, it expects to continue to generate losses in 1995. As the stores mature, the financial results are expected to improve.

Operating Profit

(In millions of dollars)	1994	1993	1992
Eastern Food Operations	$258.2	$231.2	$231.4
Western Food Operations	245.9	248.7	256.7
Drug Store Operations	228.5	197.0	205.0
LIFO charge	(8.2)	(7.2)	(16.5)
Purchase accounting amortization	(78.6)	(79.2)	(79.5)
Other	(14.1)	14.7	3.0
Continuing operations	631.7	605.2	600.1
Disposed of operations	18.4	36.7	23.2
Total operating profit	**$650.1**	**$641.9**	**$623.3**

Interest expense decreased in 1994 and 1993 due to lower average debt levels and lower average interest rates resulting from the refinancing of high coupon borrowings at lower rates. The caption "Other" in 1994 included non-recurring gains of $121.0 million on the sale of the Star Market food division, $41.2 million on the sale of the 45 Acme Markets stores and a charge of $31.3 million for closed store costs. "Other" in 1993 of $24.1 million included $45.7 million of income from the resolution of the "Rule of 80" litigation, which concerned the Company's termination of the early retirement feature of an employee retirement plan. This was offset by approximately $17.2 million of various charges, including costs associated with store closings, integrating acquired stores into existing operations and costs associated with the earthquake in southern California. "Other" was $35.1 million in 1992, primarily from the sale of 74 Jewel Osco combination food and drug stores.

The Company's effective income tax rates were 43.1% in 1994, 45.5% in 1993 and 45.2% in 1992. The Omnibus Budget Reconciliation Act of 1993 increased the Company's annual effective federal tax rate by one percent effective January 1, 1993. The increase in pre-tax earnings in 1994 compared to 1993 and 1992 resulted in a lower income tax rate due to the leverage effect that higher pre-tax earnings have on the fixed goodwill amortization that is not deductible for income tax purposes.

Earnings for 1993 were impacted by charges incurred in the early retirement of debt which were accounted for as an extraordinary item. In connection with the debt restructuring, the Company extinguished $146.0 million of debt and expensed the related costs of prepaying such debt and related derivatives. The restructuring resulted in an extraordinary pre-tax loss of $25 million ($15 million, net of tax).

Net earnings per share amounted to $2.42 in 1994, $1.74 in 1993 and $1.48 in 1992. Comparable earnings per share, which exclude non-recurring items, were $2.03, $1.80 and $1.58 for 1994, 1993 and 1992, respectively, and are described in the following table:

Comparable Earnings per Share

1994	
Net earnings per share	$2.42
Gain on sale of Star Market food division	(.50)
Gain on sale of 45 Acme Markets stores	(.17)
Centralization of administrative functions	.10
Consolidation of computer data centers	.03
Acme Markets voluntary severance program	.02
Closed store costs	.13
Comparable earnings per share	**$2.03**
1993	
Net earnings per share	$1.74
Legal settlement, severance programs, earthquake and store closings	.11
Resolution of the "Rule of 80" litigation	(.20)
Cumulative adjustment for increase in tax rate	.04
Extraordinary item, early retirement of debt	.11
Comparable earnings per share	**$1.80**
1992	
Net earnings per share	$1.48
Loss on sale of 74 Jewel Osco combo stores	.10
Comparable earnings per share	**$1.58**

Liquidity and Capital Resources

Cash provided by operating activities decreased by $416.3 million from 1993 to 1994. Tax payments were $152.8 million higher in 1994 than in 1993 as a result of taxable gains from asset dispositions and normal timing of estimated tax payments. The timing of the Stender litigation insurance proceeds, payments for damages, and payments for attorneys' fees caused a decrease in cash of $106 million between 1993 and 1994. The balance of the change is due to changes in the components of working capital and is not indicative of long-term trends. The dispositions of the Star Market food division and the 45 Acme Markets stores during 1994 and 74 Jewel Osco combination food and drug stores during 1992 render the comparison between years more difficult.

Cash capital expenditures amounted to $538.0 million in 1994, $593.8 million in 1993 and $386.1 million in 1992. Additional capital expenditures represented by the net present value of leases amounted to $27.3 million in 1994, $59.1 million in 1993 and $90.5 million in 1992. The increase in capital expenditures in 1994 and 1993 compared to 1992 reflects the effects of the Company's expanded capital expenditure program announced in 1992. The Company opened 49, 39 and 36 new stores in 1994, 1993 and 1992, respectively, and remodeled 166, 233 and 113 stores in 1994, 1993 and 1992, respectively. During 1993 the Company acquired 55 Reliable drug stores and 4 Thrifty drug stores. During 1992 the Company acquired 63 CVS drug stores and the rights to operate 22 CVS health and beauty aid stores and acquired 30 Thrifty and Rx Plus drug stores in Arizona and Nevada. Capital expenditures for fiscal 1995, including the net present value of leases, are expected to approximate $700 million and will be funded through cash flow from operations and existing credit facilities. The Company currently plans to open 75 new stores and remodel an additional 150 stores in 1995.

Proceeds from the disposition of operations consist primarily of the proceeds from the sale of the Star Market food division and the 45 Acme Markets stores of $377.6 million in 1994 and from the sale of 74 Jewel Osco combination food and drug stores of $430.0 million in 1992.

In 1994, the Company entered into a $1.0 billion revolving credit facility expiring in 1999 which replaced an existing $800 million credit facility that would have expired in 1996. The Company repaid $480 million under the prior credit facility and borrowed $480 million under the new facility. The facility is the Company's principal bank credit agreement and is used for direct borrowings and as back-up support for commercial paper and overnight bank borrowings. The new $1.0 billion credit facility has reduced the Company's mandatory debt payments making more of the Company's cash flow available for working capital and capital expenditures. In addition, during 1994 the Company prepaid a $139 million (9.7%) loan, retired $100 million (9.8%) Eurobonds and borrowed $50 million (6.4%) due in 1996.

The Company has $490 million in uncommitted lines of credit that are used for overnight and short-term bank borrowings. At year-end 1994, the Company had $855 million of debt supported by the credit facility and uncommitted credit facilities, leaving unused committed borrowing capacity of $145 million. The Company believes that its cash flow from operations, supplemented by credit available under the credit facility and uncommitted credit facilities, as well as its ability to refinance debt, will be adequate to meet its presently identifiable cash requirements.

The Company uses derivative financial instruments to manage interest and currency risks on two foreign loans. The Company is exposed to credit losses in the event of nonperformance by the counterparties. Such counterparties are highly rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts. See Debt footnote for a complete description.

Working capital amounted to $200.7 million at year-end 1994 compared to a negative $58.3 million at year-end 1993 and positive $101.2 million at year-end 1992. Fluctuations in the components of working capital are customary.

The Company's ratio of total debt (debt plus obligations under capital leases) to total capitalization (total debt plus shareholders' equity) amounted to 51.8%, 55.4% and 59.3% at year-end 1994, 1993 and 1992, respectively.

Contingencies

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that the required costs of remediation and continuing compliance with environmental laws will not have a material adverse effect on the financial condition or operating results of the Company.

The Company, from time to time, has disposed of leased properties and may retain certain contingent lease liabilities, either by contract or law. Although the Company is unaware of any material assertions against it from such dispositions, such claims may arise in the future. If such claims were asserted, the expense to the Company would consist of unpaid lease obligations, such as rents, which may be offset by subletting the property, negotiating favorable lease terminations, operating the facilities or applying existing reserves.

Inflation

In recent years, the impact of inflation on the Company's results of operations has been moderate. As operating expenses and inventory costs have increased, the Company, to the extent permitted by competition, has recovered these increases in costs by increasing prices over time.

The Company uses the LIFO (last-in, first-out) method of accounting for the majority of its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing costs.

The historical costs of property, plant and equipment recorded by the Company were incurred over a period of many years. The cost of replacing property, plant and equipment is generally greater than the cost on the books of the Company as a result of inflation that has occurred over the years since the property, plant and equipment were placed in service.

Organizational Changes

The Company is currently implementing changes that it believes will enhance its organizational effectiveness. Included among these organizational changes is the centralization of certain administrative functions, including the information technology, accounting, real estate and construction functions. The Company believes these organizational changes will ultimately reduce its operating expenses and enhance its future operating results, although no assurances can be given that such results will be achieved. The Company recorded a charge to operating expenses of $23.9 million in 1994 for centralization of these functions.

The Company is also currently engaged in an effort to re-engineer its supply chain process. This involves streamlining the Company's buying, warehousing, distribution and merchandising activities. Major components of this effort include the development of new software to support these activities, as well as centralized management of certain buying and warehousing activities. The goal is to reduce overall supply chain costs. The re-engineering efforts will continue over the next several years and while the Company believes this effort will ultimately reduce its operating expenses and enhance its future operating results, the beneficial impact cannot presently be quantified.

Recent Developments

On March 9, 1995, the Company completed the redemption of its $175 million 7-1/4% Convertible Subordinated Notes due 2001. The Company issued 5.3 million shares of common stock upon the conversion of $120.3 million principal amount of Notes and the balance of approximately $54.7 million principal amount of Notes was redeemed for cash.

ERNST & YOUNG LLP

Shareholders and Board of Directors
American Stores Company

We have audited the accompanying consolidated balance sheets of American Stores Company and subsidiaries as of January 28, 1995, January 29, 1994 and January 30, 1993, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended January 28, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Stores Company and subsidiaries at January 28, 1995, January 29, 1994 and January 30, 1993, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 1995, in conformity with generally accepted accounting principles.

Ernst + Young LLP

March 16, 1995
Salt Lake City, Utah

Consolidated Statements of Earnings

(In thousands, except per share data)	1994	1993	1992
Sales	$18,355,126	$18,763,439	$19,051,180
Cost of merchandise sold, including warehousing and transportation expenses	13,436,699	13,815,607	14,075,787
Gross profit	4,918,427	4,947,832	4,975,393
Operating and administrative expenses	4,268,359	4,305,950	4,352,079
Operating profit	650,068	641,882	623,314
Other income (expense):			
Interest income	6,789	4,568	4,477
Interest expense	(170,703)	(189,773)	(214,394)
Other	120,109	24,128	(35,116)
Total other income (expense)	(43,805)	(161,077)	(245,033)
Earnings before income taxes and extraordinary item	606,263	480,805	378,281
Federal and state income taxes	(261,079)	(218,715)	(170,815)
Earnings before extraordinary item	345,184	262,090	207,466
Extraordinary item – early retirement of debt – net of taxes		(15,000)	
Net earnings	**$ 345,184**	**$ 247,090**	**$ 207,466**
Average shares outstanding	142,767	142,202	140,314
Earnings per share before extraordinary item	$2.42	$1.85	$1.48
Extraordinary item		(.11)	
Net earnings per share	**$2.42**	**$1.74**	**$1.48**
Fully diluted earnings per share	**$2.33**	**$1.69**	**$1.44**

See notes to consolidated financial statements

Consolidated Balance Sheets

(In thousands of dollars, except per share data)	Year-end 1994	1993	1992
Assets			
Current Assets			
Cash and cash equivalents	$ 195,689	$ 59,580	$ 54,048
Receivables	291,760	282,124	285,187
Inventories	1,526,770	1,539,610	1,576,499
Prepaid expenses	48,711	43,265	44,523
Deferred income tax benefits	69,165	71,230	55,664
Total current assets	2,132,095	1,995,809	2,015,921
Property, Plant and Equipment, at cost			
Land	522,014	541,396	496,594
Buildings	1,221,871	1,109,737	1,017,665
Fixtures and equipment	2,168,826	2,092,934	1,887,063
Leasehold improvements	654,441	654,123	546,108
	4,567,152	4,398,190	3,947,430
Less accumulated depreciation and amortization	1,800,714	1,694,150	1,505,857
Net property, plant and equipment	2,766,438	2,704,040	2,441,573
Property Under Capital Leases, less accumulated amortization of $103,760 in 1994, $108,394 in 1993 and $99,689 in 1992	84,690	97,127	108,623
Goodwill, less accumulated amortization of $365,271 in 1994, $311,823 in 1993 and $258,336 in 1992	1,771,121	1,827,334	1,880,821
Other Assets	277,222	303,124	316,855
	$7,031,566	**$6,927,434**	**$6,763,793**

Consolidated Balance Sheets (Concluded)

(In thousands of dollars, except per share data)	Year-end 1994	1993	1992
Liabilities and Shareholders' Equity			
Current Liabilities			
Current maturities of long-term debt	$ 132,019	$ 66,830	$ 54,699
Current obligations under capital leases	9,195	9,708	9,569
Accounts payable	883,329	958,272	958,083
Accrued payroll and benefits	350,637	303,160	301,653
Current portion of self-insurance reserves	179,595	212,891	202,445
Income taxes payable	46,170	118,279	32,072
Other current liabilities	330,486	384,959	356,185
Total current liabilities	1,931,431	2,054,099	1,914,706
Long-term Debt, less current maturities	1,988,710	2,003,866	2,086,464
Obligations Under Capital Leases, less current obligations	75,367	87,595	97,584
Self-insurance Reserves, less current portion	464,119	464,451	466,700
Deferred Income Taxes	320,814	345,760	399,482
Other Liabilities	200,204	229,378	254,843
Shareholders' Equity			
Common stock of $1.00 par value, authorized 325,000,000 shares; issued 144,542,156 shares	144,542	144,542	72,271
Additional paid-in capital	216,418	190,173	262,746
Retained earnings	1,708,672	1,432,032	1,241,847
Less cost of treasury stock; 1,571,094 shares in 1994, 2,038,454 shares in 1993 and 2,682,214 shares in 1992	(18,711)	(24,462)	(32,850)
Total shareholders' equity	2,050,921	1,742,285	1,544,014
	$7,031,566	**$6,927,434**	**$6,763,793**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

(In thousands of dollars)	1994	1993	1992
Cash flows from operating activities:			
Net earnings	$ 345,184	$ 247,090	$ 207,466
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	407,286	384,307	370,439
Net (gain) loss on asset sales	(158,448)	16,060	34,227
Deferred income taxes	(23,247)	(53,722)	(38,766)
Self-insurance reserves and other	(94,404)	(45,610)	(37,114)
(Increase) decrease in current assets:			
Receivables	(26,037)	3,063	(21,792)
Inventories	(46,149)	36,889	(3,864)
Prepaid expenses	(10,347)	(14,308)	24,372
(Decrease) increase in current liabilities:			
Accounts payable	(44,369)	189	(3,869)
Other current liabilities	(49,866)	28,774	(67,466)
Accrued payroll and benefits	41,108	1,507	(6,231)
Income taxes payable	(66,611)	86,207	13,380
Total adjustments	(71,084)	443,356	263,316
Net cash provided by operating activities	274,100	690,446	470,782
Cash flows from investing activities:			
Expended for property, plant and equipment	(538,033)	(593,785)	(386,106)
Proceeds from disposition of operations	377,618		429,952
Proceeds from sale of assets	21,680	38,007	48,271
Net cash (used in) provided by investing activities	(138,735)	(555,778)	92,117
Cash flows from financing activities:			
Proceeds from long-term borrowing	530,000	100,000	401,602
Reduction of long-term debt	(479,967)	(170,467)	(935,128)
Principal payments for obligations under capital leases	(12,741)	(9,850)	(16,735)
Proceeds from exercise of stock options	7,888	7,532	14,553
Other changes in equity	24,108	554	6,572
Cash dividends	(68,544)	(56,905)	(51,007)
Net cash provided by (used in) financing activities	744	(129,136)	(580,143)
Net increase (decrease) in cash and cash equivalents	136,109	5,532	(17,244)
Cash and cash equivalents:			
Beginning of year	59,580	54,048	71,292
End of year	**$ 195,689**	**$ 59,580**	**$ 54,048**

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

(In thousands of dollars, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balances at beginning of 1992	$ 72,271	$292,026	$1,085,388	$ (83,255)	$1,366,430
Net earnings – 1992			207,466		207,466
Issuance of 1,097,770 shares of stock for stock options and awards		29		14,524	14,553
Dividends ($.36 per share)			(51,007)		(51,007)
Stock Purchase Incentive Plans including issuance of 2,273,000 shares		(34,845)		35,892	1,047
Purchase of 626 shares for treasury				(11)	(11)
Other		5,536			5,536
Balances at year-end 1992	72,271	262,746	1,241,847	(32,850)	1,544,014
Net earnings – 1993			247,090		247,090
Issuance of 524,258 shares of stock for stock options and awards		579		6,953	7,532
Dividends ($.40 per share)			(56,905)		(56,905)
Stock Purchase Incentive Plans including issuance of 120,000 shares		(3,389)		1,446	(1,943)
Declaration of 72,271,078 shares of stock to effect a 2-for-1 stock split	72,271	(72,271)			0
Purchase of 498 shares for treasury				(11)	(11)
Other		2,508			2,508
Balances at year-end 1993	144,542	190,173	1,432,032	(24,462)	1,742,285
Net earnings – 1994			345,184		345,184
Issuance of 427,512 shares of stock for stock options and awards		2,629		5,259	7,888
Dividends ($.48 per share)			(68,544)		(68,544)
Stock Purchase Incentive Plans including issuance of 40,000 shares		21,245		496	21,741
Purchase of 152 shares for treasury				(4)	(4)
Other		2,371			2,371
Balances at year-end 1994	**$144,542**	**$216,418**	**$1,708,672**	**$(18,711)**	**$2,050,921**

See notes to consolidated financial statements

Significant Accounting Policies

Fiscal Year

The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1994", "1993" and "1992" represent the 52-week fiscal years ended January 28, 1995, January 29, 1994 and January 30, 1993, respectively.

Basis of Consolidation

The consolidated financial statements include the accounts of American Stores Company and all subsidiaries. Accordingly, all references herein to "American Stores Company" include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company operates in a single industry segment, the retail sale of food and drug merchandise.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value. Cash and cash equivalents are higher at year-end 1994 due to proceeds from the sale of the Star Market food division and the 45 Acme Markets stores.

Depreciation and Amortization

Depreciation and amortization is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and properties under capital leases are amortized over the estimated useful life of the property or over the term of the lease, whichever is shorter.

Goodwill

Goodwill, principally from the acquisition of Lucky Stores, Inc. in 1988, represents the excess of cost over fair value of net assets acquired and is being amortized over 40 years using the straight-line method.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings as incurred. When operations are discontinued and a store is closed, the remaining investment, net of salvage value, is charged against earnings and, for leased stores, a provision is made for the remaining lease liability, net of expected sublease income.

Income Taxes

The Company provides for deferred income taxes or credits as temporary differences arise in recording income and expenses between financial reporting and tax reporting. Amortization of goodwill is not deductible for purposes of calculating income tax provisions.

Net Earnings Per Share

Net earnings per share are determined by dividing the weighted average number of shares outstanding during the year into net earnings. Common share equivalents in the form of stock options are excluded from the calculation of net earnings per share since they have not had a material dilutive effect on per share figures. Fully diluted earnings per share includes the assumed conversion of subordinated convertible debt and stock options into common stock.

Environmental Remediation Costs

Costs incurred to investigate and remediate contaminated sites, caused primarily by defective underground petroleum storage tanks are accrued when identified and estimable. The related costs are expensed unless the remediation extends the economic useful life of the assets employed at the site.

Self-insurance

The Company is self-insured for property loss, workers' compensation, general liability and automotive liability, subject to specific retention levels. The Company is also self-insured for health care claims for eligible active and retired associates. Consulting actuaries assist the Company in determining its liability for self-insured claims. The Company is required in certain cases to obtain letters of credit to support its self-insured status. At year-end 1994, the Company's self-insured liabilities were supported by approximately $278 million of undrawn letters of credit. Self-insured liabilities, with the exception of postretirement health care benefits, are not discounted.

Inventories

Approximately 93% of inventories are accounted for using the LIFO (last-in, first-out) method of inventory valuation. If the FIFO and average cost methods had been used, inventories would have been $300.3 million, $303.3 million and $296.1 million higher at year-end 1994, 1993 and 1992, respectively. The LIFO charge to earnings was $8.2 million in 1994, $7.2 million in 1993 and $16.5 million in 1992. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing costs.

Advertising Expense

Total advertising expense amounted to $167.2 million, $169.5 million and $174.6 million in 1994, 1993 and 1992, respectively. The decrease in advertising expense from 1992 to 1994 is primarily due to the disposition of stores.

Reclassification

The 1992 and 1993 financial statements have been restated to conform to the current year presentation.

Disposition of Operations

On September 8, 1994, the Company sold its 33-store Star Market food division with a basis of $167.0 million for $288.0 million and the assumption of substantially all of its outstanding liabilities. On January 19, 1995, the Company sold 45 of its Acme Markets stores with a basis of $48.4 million for $89.6 million. In April 1992, the Company sold 74 Jewel Osco combination stores and related support facilities located in Texas, Arkansas, Oklahoma and Florida, with a basis of $454.2 million, for $430.0 million in cash. The assets sold consisted primarily of property, plant, equipment and inventories.

Debt

During 1994, the Company entered into a $1.0 billion revolving credit facility expiring in 1999 that replaced an existing $800 million credit facility that would have expired in 1996. Interest rates for borrowings under the facility are established at the time of borrowing, through four different pricing options. Terms of the revolving credit facility provide for borrowings from participating banks or borrowing through issuance of commercial paper that is supported by the facility. At year-end 1994, the Company also had uncommitted lines of credit with various banks which allow it to borrow up to $490 million.

The outstanding debt under the credit facilities and short-term bank borrowings described above has been classified as long-term debt since the total amount outstanding did not exceed the amount of bank commitments extending beyond one year.

On February 18, 1994, the Company filed a shelf registration statement with the Securities and Exchange Commission to issue up to $800 million in debt securities for the retirement of debt and other general corporate purposes. To date, no securities have been issued under the registration statement.

The Company capitalized interest costs associated with construction projects of $3.9 million, $3.4 million and $2.0 million in 1994, 1993 and 1992, respectively. The Company made cash payments for interest (net of amounts capitalized) of $172.0 million, $175.2 million and $192.7 million in 1994, 1993 and 1992, respectively.

The aggregate amounts of debt maturing in each of the next five fiscal years are listed below:

(In thousands of dollars)	
1995	$ 132,019
1996	57,621
1997	57,779
1998	73,773
1999	1,088,992
Thereafter	710,545
	$2,120,729

The Company's various loans secured by real estate are collateralized by properties with a net book value of $126.1 million at year-end 1994.

A summary of debt is as follows:

(In thousands of dollars)	1994	1993	1992
Public Debt (unsecured):			
Medium Term Notes – fixed interest rates due 1997 through 2003 – average interest rate 7.9%	$ 250,000	$ 250,000	$ 150,000
9-1/8% Notes due 2002	248,966	248,868	248,779
7-1/4% Convertible Subordinated Notes due 2001	174,997	174,997	174,997
9-3/4% Eurobond Notes due 1994		100,000	100,000
Bank Borrowings (unsecured):			
Term loan – average interest rates 3.8% in 1993 and 5.1% in 1992			100,000
Revolving credit facility – variable interest rates, effectively due 1999 – average interest rates 4.8% in 1994, 3.6% in 1993 and 4.2% in 1992	645,000	450,000	300,000
Lines of credit and commercial paper – variable interest rates, effectively due 1999 – average interest rates 4.7% in 1994, 3.4% in 1993 and 4.0% in 1992	210,000	128,000	259,000
Other borrowings – due 1995 through 1996 – average interest rates 8.8% in 1994, 9.5% in 1993 and 9.4% in 1992	175,000	140,000	155,000
9.7% due 1996		138,803	138,803
Other Unsecured Debt:			
9.8% due 1999 [1]	210,000	210,000	210,000
10.6% due 2004	108,893	108,893	108,893
Other – due through 2001	4,211	8,353	10,802
Debt Secured by Real Estate:			
Fixed interest rates – due through 2014 – average interest rate 13.4% in 1994, 13.7% in 1993 and 12.4% in 1992	93,662	112,782	184,889
Outstanding debt	2,120,729	2,070,696	2,141,163
Less current maturities	132,019	66,830	54,699
Long-term debt	**$1,988,710**	**$2,003,866**	**$2,086,464**

[1] *See following paragraph concerning yen loans.*

The Company uses derivative financial instruments to manage interest and currency risks on two foreign borrowings totaling 29.1 billion yen at an average yen interest rate of 6.0% and are accounted for as a hedge. At the time the loans originated, the Company entered into interest rate and currency exchange swap agreements (swaps) that match the interest and principal payments of the yen loans. Under these swaps, the Company makes fixed rate interest payments of 9.8% and principal payments totaling $210 million and receives payments equal to the underlying yen loan obligations. The proceeds, in yen, from these swaps are used to satisfy the yen-based interest and principal payments. As of year-end 1994, the estimated fair value of the swaps, based on market quotes, was approximately $93 million and equaled the loss on the yen loans due to currency and interest rate movements, resulting in an aggregate fair value of zero. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swaps. Such counterparties are highly rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts.

The carrying amounts of the Company's bank borrowings with variable interest rates approximate fair value. The fair value of the Company's borrowings with fixed interest rates is estimated using discounted cash flow analyses, based on current market rates where available, or on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of outstanding debt as of year-end 1994 was $2.2 billion compared to the carrying value of $2.1 billion.

Leases

The Company leases retail stores, offices, warehouses and distribution facilities. Initial lease terms generally range from 20 to 25 years, plus renewal options, and may provide for contingent rent based on sales volume in excess of specified levels.

The summary below shows the aggregate future minimum rent commitments at year-end 1994 for both capital and operating leases. Operating leases are shown net of an aggregate $66.2 million of minimum rent income receivable under non-cancellable subleases. Operating leases also exclude the amortization of acquisition-related fair value adjustments.

(In thousands of dollars)	Operating Leases	Capital Leases
1995	$ 147,892	$ 18,051
1996	141,004	17,203
1997	132,451	15,501
1998	125,112	14,013
1999	114,593	10,396
Thereafter	810,201	66,312
Total minimum rent commitments	**$1,471,253**	**141,476**
Less executory costs (such as taxes, insurance and maintenance) included in capital leases		1,867
Net minimum lease payments		139,609
Less amount representing interest		55,047
Obligations under capital leases, including $9.2 million due within one year		**$ 84,562**

Rent expense, excluding the amortization of acquisition-related fair value adjustments of $14.5 million in 1994, $14.9 million in 1993 and $15.0 million in 1992, was as follows:

(In thousands of dollars)	Minimum Rent	Sublease Rent	Net	Contingent Rent	Total Rent
1994	$184,116	$ 9,064	$175,052	$26,508	$201,560
1993	173,910	9,133	164,777	29,809	194,586
1992	163,070	10,705	152,365	32,174	184,539

Income Taxes

Federal and state income taxes charged to earnings before extraordinary item are summarized below:

(In thousands of dollars)	1994	1993	1992
Current:			
Federal	$208,032	$200,845	$152,887
State	55,926	51,932	41,773
Deferred:			
Federal	(2,241)	(26,510)	(18,426)
State	(638)	(7,552)	(5,419)
Federal and state income taxes	**$ 261,079**	**$ 218,715**	**$ 170,815**

Cash payments of income taxes were $354.6 million, $201.8 million and $199.2 million in 1994, 1993 and 1992, respectively.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows:

(Percent of earnings before income taxes)	1994	1993	1992
Statutory federal income tax rate	35.0%	35.0%	34.0%
State income tax rate, net of federal income tax effect	5.7	5.5	5.6
Goodwill amortization	3.6	4.5	5.6
Tax credits	(0.6)	(0.3)	(0.8)
Other	(0.6)	0.8	0.8
Effective income tax rate	**43.1%**	**45.5%**	**45.2%**

Deferred tax benefits and liabilities as of year-end 1994 related to the following temporary differences:

(In thousands of dollars)	Benefits	Liabilities	Total
Basis in fixed assets	$ 34,692	$(264,539)	$(229,847)
Self-insurance reserves	240,835		240,835
Purchase accounting valuation	50,877	(376,423)	(325,546)
Compensation and benefits	44,251	(23,128)	21,123
Other, net	41,811	(25)	41,786
Deferred tax benefits and liabilities	**$ 412,466**	**$(664,115)**	**$(251,649)**

No valuation allowances have been considered necessary in the calculation of deferred tax benefits.

Stock Option Plans

The Company's 1989 Stock Option and Stock Award Plan ("1989 Plan") provides for the grant of options to purchase shares of common stock, the grant of stock appreciation rights and the issuance of restricted stock awards for an aggregate of up to 4.8 million shares of common stock, subject to certain antidilution adjustments. At year-end 1994, there were 4.2 million shares reserved for future grants under the 1989 Plan.

The Company's 1985 Stock Option and Stock Award Plan ("1985 Plan") provides for the grant of options to purchase shares of common stock, the grant of stock appreciation rights and the issuance of restricted stock awards for an aggregate of up to 4.0 million shares of common stock, subject to certain antidilution adjustments. At year-end 1994, there were 0.3 million shares reserved for future grants under the 1985 Plan.

At year-end 1994, there were 166,100 shares under stock options outstanding under the 1989 Plan, 1,096,224 shares under stock options outstanding under the 1985 Plan and 98,132 shares under stock options outstanding under an expired plan.

Compensation relating to stock option and award plans decreased pre-tax earnings by $2.9 million in 1994, $3.1 million in 1993 and $7.6 million in 1992. The average exercise price of stock options exercised during 1994 was $12.14 per share. The average exercise price per share for outstanding options was $11.24, $11.20 and $10.98 in 1994, 1993 and 1992, respectively.

A summary of stock options is as follows:

(In thousands of shares)	1994	1993	1992
Outstanding at beginning of year	2,183	3,008	3,695
Granted			835
Exercised	(610)	(715)	(1,345)
Forfeited	(213)	(110)	(177)
Outstanding at end of year	**1,360**	**2,183**	**3,008**
Exercisable at end of year	**457**	**1,067**	**1,098**
Reserved for future grants	**4,503**	**4,298**	**4,217**

Stock Purchase Incentive Plans

In 1992, the Company's shareholders approved both the American Stores Company Key Executive Stock Purchase Incentive Plan and the American Stores Company Board of Directors Stock Purchase Incentive Plan ("Plans"). The Plans are intended to promote the long-term growth and financial success of the Company, and to strengthen the link between management and shareholders.

During 1994, 1993 and 1992, the Company awarded to certain directors and key executive officers the right to purchase a specified number of shares of the Company's stock and extended to such directors and officers full recourse interest bearing purchase loans to acquire the stock. The stock purchased by the directors and officers with the purchase loans was issued from treasury shares. The purchase loans have an eight-year term and accrue interest at rates ranging from 5.3% to 7.0%. The acquisition price of the stock was the average of the high and low value on the day acquired, as reported on the New York Stock Exchange. Shares held by the executives and directors pursuant to the Plans were 2,063,000, 2,393,000 and 2,273,000 for 1994, 1993 and 1992, respectively, with corresponding loan balances of $40.3 million, $45.8 million and $39.7 million. The aggregate principal of these notes outstanding is recorded as a reduction of additional paid-in capital in the balance sheet.

Participants purchasing stock under the Plans are eligible for a deferred cash incentive award which is generally payable at the end of a five-year performance cycle. One-half of the deferred award will be based on the continuation of service with the Company ("Service Component"), and the other half will be based on the Company's relative stock price performance versus a selected group of companies in the retail food and drug industry ("Performance Component"). The maximum combined Performance Component and Service Component payable to participants will not exceed the original principal amount of the purchase loan plus accrued but unpaid interest. The estimated deferred cash incentive award earned to date is recognized as a credit to the note balances in additional paid-in capital in the balance sheet.

Preferred Share Purchase Rights

During March 1988, the Board of Directors of the Company declared a distribution of one Preferred Share Purchase Right ("Right") for each outstanding share of the Company's common stock.

Each Right entitles shareholders to purchase one four-hundredth of a share of a new series of preferred stock at an exercise price of $62.50. The Rights will be exercisable only if a person or group acquires 20% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of the Company's common stock. The Rights will not apply to a 20% or greater position held by Mr. L. S. Skaggs, the Company's Chairman, or certain other related parties. The Company will be entitled to redeem the Rights at one-quarter cent per Right any time before a 20% or greater position has been acquired. Additionally, the Company may lower the 20% threshold to not less than the greater of (i) any percentage greater than the largest percentage of common stock known by the Company to be owned by any person (other than L. S. Skaggs) and (ii) 10%.

If the Company is acquired in a merger or other business combination transaction, each Right will "flip over" and entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the Right's exercise price.

In addition, if a person or group acquired 20% or more of the outstanding Company common stock, each Right will "flip in" and entitle all other holders to purchase, at the Right's then current exercise price, a number of shares of the Company's common stock having a market value of twice the Right's exercise price. Further, at any time after a person or group acquires 20% or more of the outstanding Company common stock but prior to the acquisition of 50% of such stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than rights held by the acquiring person or group) for shares of the Company's common stock at an exchange rate of one share of common stock for each Right.

Postretirement Health Care Benefits

The Company provides certain health care benefits to eligible retirees of certain defined employee groups under two unfunded plans, a defined dollar and a full coverage benefit plan.

The following schedule sets forth the postretirement benefit liability included in the Company's balance sheet:

(In thousands of dollars)	1994	1993	1992
Current retirees	$35,787	$45,389	$46,766
Current active employees	13,521	20,893	19,100
Unrecognized gain	16,819	1,612	1,191
Accumulated postretirement benefit obligation ("APBO")	66,127	67,894	67,057
Plan assets at fair value			
APBO in excess of plan assets	**$66,127**	**$67,894**	**$67,057**

The expense for postretirement health care benefits was approximately $4.1 million in 1994, $5.9 million in 1993 and $5.2 million in 1992, including adjustment of the accumulated postretirement benefit obligation.

The net postretirement health care benefit expense for each year included the following components:

(In thousands of dollars)	1994	1993	1992
Service cost	$1,013	$1,027	$ 1,083
Interest cost	3,730	4,827	5,197
Adjustment of APBO	(598)		(1,032)
Net postretirement health care benefit expense	**$4,145**	**$5,854**	**$ 5,248**

The Company assumed no increase in the cost of the defined dollar benefit plan and a 12% annual rate of increase for health care costs for the full coverage plan for 1994. The rate for 1995 is 11%, decreasing to 6% by the year 2002. A discount rate of 8.5% was used to determine the APBO.

Increasing the assumed health care cost trend rates for both plans by one percentage point in each year would have resulted in no increase in the APBO at year-end 1994 for the defined dollar plan and a $1.8 million increase for the full coverage plan. The aggregate of the service cost and interest cost components of the net postretirement health care benefit expense for 1994 would have experienced no increase for the defined dollar benefit plan and a $0.1 million increase for the full coverage plan.

Retirement Plans

The Company sponsors and contributes to a defined contribution retirement plan, American Stores Retirement Estates ("ASRE"). This plan was authorized by the Board of Directors for the purpose of providing retirement benefits for associates of American Stores Company and its subsidiaries. The plan covers associates meeting age and service eligibility requirements, except those represented by a labor union, unless the collective bargaining agreement provides for participation. Contributions to ASRE are made at the discretion of the Board of Directors.

The Company also contributes to multi-employer defined benefit retirement plans in accordance with the provisions of the various labor contracts that govern the plans. The multi-employer plan contributions are generally based on the number of hours worked. Information about these plans as to vested and non-vested accumulated benefits and net assets available for benefits is not available.

Retirement plans expense in each year was as follows:

(In thousands of dollars)	1994	1993	1992
Company sponsored plans	$ 84,149	$ 79,626	$ 75,118
Multi-employer plans	67,391	62,859	65,126
Retirement plans expense	**$151,540**	**$142,485**	**$140,244**

During 1994 the Company entered into Employment Agreements ("Agreements") with seventeen of the Company's key executive officers. The Agreements are for a term of three or five years, may be renewed by the Company for subsequent three-year or five-year terms, contain usual and customary terms of employment agreements and provide the officers with a special long-range retirement plan. Under the retirement plan, the executives are entitled to receive an annual payment for a period of 20 years beginning at age 57 or upon termination of employment, whichever occurs later. The retirement benefit is a percentage amount (ranging from 9% to 30% or 40%) that is based on each executive's average target compensation objective for the two years prior to the termination of employment under the Agreement. The retirement benefit will be forfeited if the executive enters into competition with the Company.

Contingencies

The Company, from time to time, has disposed of leased properties and may retain certain contingent lease liabilities, either by contract or law. Although the Company is unaware of any material assertions against it from such dispositions, such claims may arise in the future. If such claims were asserted, the expense to the Company would consist of unpaid lease obligations, such as rents, which may be offset by subletting the property, negotiating favorable lease terminations, operating the facilities or applying existing reserves.

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). At most of these locations, remediation is either underway or completed. Reserves have been established for each environmental contamination site unless an unfavorable outcome is remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that required costs of remediation and continuing compliance with environmental laws will not have a material adverse effect on the financial condition or operating results of the Company. Charges against earnings for environmental remediation were not material in 1994, 1993 or 1992.

Legal Proceedings

The Company is involved in various claims, administrative proceedings and other legal proceedings which arise from time to time in connection with the conduct of the Company's business. In the opinion of management, such proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

Organizational Changes

The Company recorded a charge to operating expenses of $23.9 million in 1994 for centralization of certain administrative functions. This charge included $5.6 million related to termination benefits of which $1.6 million was paid in 1994. It is estimated by the Company that 570 people will be terminated over the course of the restructuring and 255 employees were terminated during fiscal 1994. There have been no revisions to the original estimates. The expenditures for the restructuring are expected to be funded by the benefits of such organizational changes.

Subsequent Events

On February 22, 1995, the Board of Directors expressed its intent, subject to the exercise of its fiduciary duties, to allow the Rights Agreement pertaining to the Company's preferred share purchase rights, dated March 18, 1988, as amended, to expire in accordance with its terms on March 18, 1998, without renewal or extension.

On March 9, 1995, the Company completed the redemption of its $175 million 7-1/4% Convertible Subordinated Notes due 2001. The Company issued 5.3 million shares of common stock upon the conversion of $120.3 million principal amount of Notes and the balance of approximately $54.7 million principal amount of Notes was redeemed for cash.

In the opinion of management, all adjustments necessary for a fair presentation have been included:

(In thousands of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter [1]	Fiscal Year
1994					
Sales	$4,607,652	$4,669,018	$4,431,863	$4,646,593	$18,355,126
Gross profit	1,219,801	1,232,503	1,183,166	1,282,957	4,918,427
Operating profit	131,756	169,830	120,982	227,500	650,068
Other	(1,623)	(1,900)	87,785	35,847	120,109
Net earnings	47,963	69,034	97,934	130,253	345,184
Net earnings per share	$.34	$.48	$.69	$.91	$2.42
Fully diluted earnings per share	.33	.47	.66	.87	2.33
1993					
Sales	$4,668,105	$4,693,057	$4,531,715	$4,870,562	$18,763,439
Gross profit	1,201,785	1,224,186	1,195,398	1,326,463	4,947,832
Operating profit	118,108	153,695	136,994	233,085	641,882
Other	31,665	(2,544)	699	(5,692)	24,128
Earnings before extraordinary item	56,507	58,501	45,408	101,674	262,090
Extraordinary item – early retirement of debt – net of taxes	(15,000)				(15,000)
Net earnings	41,507	58,501	45,408	101,674	247,090
Earnings per share before extraordinary item	$.40	$.41	$.32	$.72	$1.85
Extraordinary item	(.11)				(.11)
Net earnings per share	.29	.41	.32	.72	1.74
Fully diluted earnings per share	.29	.40	.31	.69	1.69
1992					
Sales	$4,924,074	$4,702,547	$4,574,284	$4,850,275	$19,051,180
Gross profit	1,230,335	1,226,293	1,203,575	1,315,190	4,975,393
Operating profit	120,337	150,108	132,593	220,276	623,314
Other	(28,381)	(3,633)	(2,016)	(1,086)	(35,116)
Net earnings	18,268	51,231	43,222	94,745	207,466
Net earnings per share	$.13	$.37	$.31	$.67	$1.48
Fully diluted earnings per share	N/A	.36	.30	.64	1.44

[1] *Operating profit in the fourth quarter has exceeded the prior three quarters in each of the three years presented due to the seasonality of the food and drug retail business. The holiday season in the fourth quarter benefits the food and drug retail business. Increased cold and flu occurrences during this quarter benefit the drug store operations.*

The Company conducts its activities principally through its retail food and drug store operations. The retail operations and other non-retail subsidiaries are listed below.

Food Operations

Acme Markets, Inc.
75 Valley Stream Parkway
Malvern, Pennsylvania 19355
(610) 889-4000

Jewel Food Stores, Inc.
1955 West North Avenue
Melrose Park, Illinois 60160
(708) 531-6000

Jewel Osco Southwest, Inc.
11825 Lomas N.E.
Albuquerque, New Mexico 87112
(505) 296-9166

Lucky Stores Northern California Division
1701 Marina Boulevard
San Leandro, California 94577
(510) 678-4200

Lucky Stores Southern California Division
6565 Knott Avenue
Buena Park, California 90620
(714) 739-2200

Super Saver
420 East South Temple
Salt Lake City, Utah 84102
(801) 320-3531

Drug Operations

Osco Drug
1818 Swift Drive
Oak Brook, Illinois 60521
(708) 572-5000

Sav-on
1500 South Anaheim Boulevard
Anaheim, California 92805
(714) 778-2300

RxAmerica
369 Billy Mitchell Way
Salt Lake City, Utah 84116
(801) 532-7437

Non-retail Subsidiaries

American Stores Properties, Inc.
348 East South Temple
Salt Lake City, Utah 84111
(801) 539-0140

National Procurement and Logistics Company
709 East South Temple
Salt Lake City, Utah 84102
(801) 539-0112

Skaggs Telecommunications Service, Inc.
935 West Bullion Street
Murray, Utah 84123
(801) 263-3959

Corporate Information

The following information is provided to assist shareholders in their communications with the Company.

Corporate Information

Shareholder inquiries should be directed to:

American Stores Company
709 East South Temple
Salt Lake City, Utah 84102
P. O. Box 27447
Salt Lake City, Utah 84127-0447
Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

Transfer Agent, Registrar and Dividend Paying Agent

The transfer agent, registrar and dividend paying agent for American Stores Company common stock is First Chicago Trust Company of New York. In this capacity, First Chicago maintains all shareholder records for the corporation. For information about American Stores Company shareholder records or to request replacement of lost dividend checks or stock certificates, shareholders should contact:

First Chicago Trust Company of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 446-2617

Stock Trading

American Stores Company's common stock is listed on the New York, Philadelphia, Chicago and Pacific Stock Exchanges, and is quoted in the daily stock tables carried by most newspapers. The ticker symbol for the common stock is "ASC". The stock table abbreviation is "AmStor".

Form 10-K and Quarterly Financial Reports

Copies of the Company's annual report on Form 10-K, may be obtained without charge upon request to the Investor Relations Department.

In lieu of printing and distributing Quarterly Reports to Shareholders, American Stores Company makes available to its shareholders without charge a copy of the Company's quarterly report on Form 10-Q. Shareholders wishing to receive the Company's Form 10-Q reports may contact the Investor Relations Department.

Fact Book

A comprehensive Fact Book with detailed historical financial information is available on request without charge. It may be obtained by contacting the Investor Relations Department.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Wednesday, June 21, 1995 at 10:00 a.m. (Mountain Daylight Time) at the Red Lion Hotel, 255 South West Temple, Salt Lake City, Utah.

1995 Calendar

	Quarter End
First Quarter	April 29, 1995
Second Quarter	July 29, 1995
Third Quarter	October 28, 1995
Fourth Quarter	February 3, 1996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We're there
when you need us!
OscoDrug
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